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16e HUMAN RESOURCE MANAGEMENT

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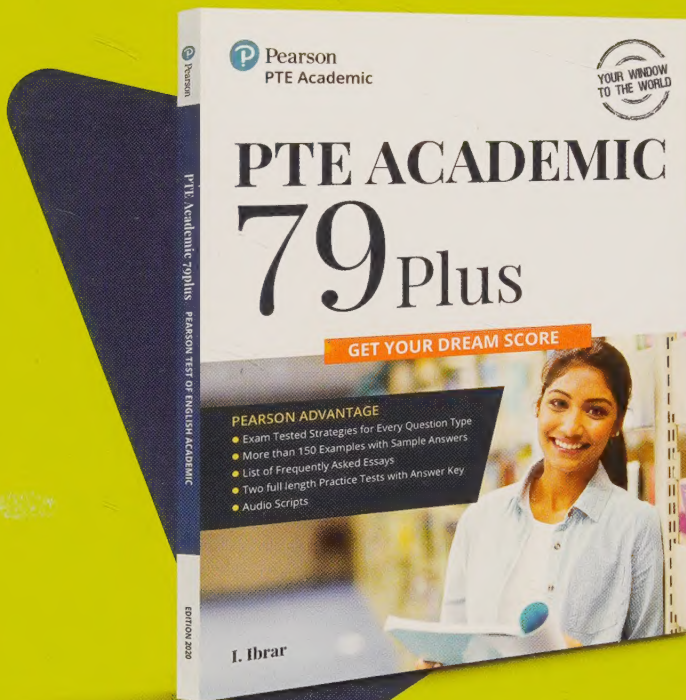
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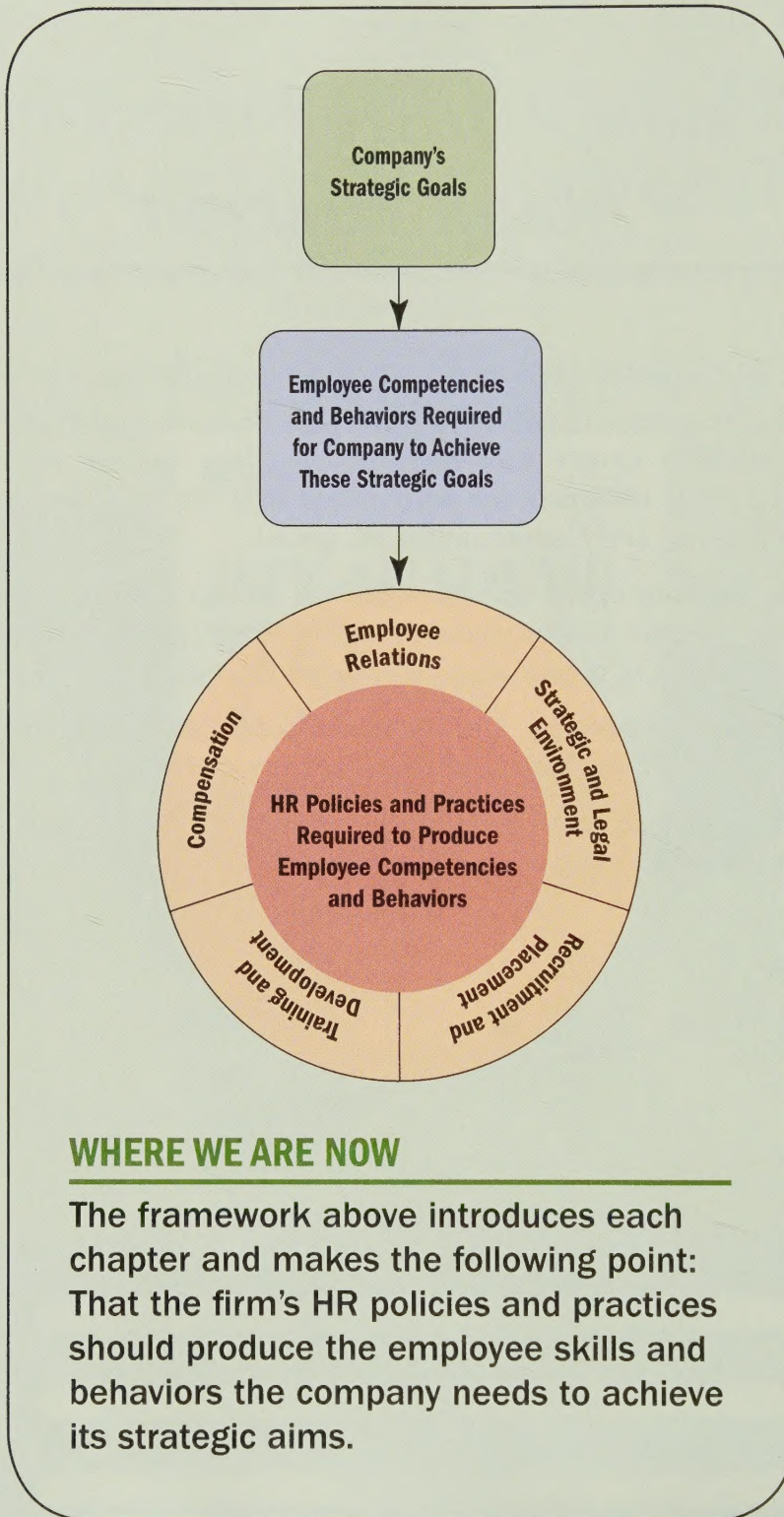
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Human Resource Management

Sixteenth Edition

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Indian Subcontinent Adaptation

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PREFACE

NEW TO THIS EDITION

Adopters will find three main changes that are new to this edition:

Updated Chapters

To ensure a smooth transition for adopters from the 15th to this 16th edition, this edition's table of contents and the outline of all 18 chapters are basically as they were in the 15th edition except for contextual adaptations, so in terms of teaching, the topic flow is about the same as the 15th edition. However, embedded in each chapter's paragraphs are dozens of new topics, practical examples, and research insights, all accompanied by hundreds of new endnotes.

We've made sure to integrate the new text material into the book's accompanying PowerPoint slides, test banks, and others.

HR and the Gig Economy Features

It's not easy getting a handle on how many people are working in the gig economy, but the number is huge.ⁱ By some estimates, over 40% of all workers in America may soon be freelancers; a trend which is also catching up in India and by another estimate about a third of all workers now do gig work on the side, such as teachers driving for Uber.ⁱⁱ

Whatever the exact number, the growth of the so-called gig economy has big implications for those who have to manage gig workers. New **HR and the Gig Economy** features show how companies manage gig workers' HR needs, for example how to recruit, screen, train, appraise, and manage the safety of gig workers.

■ HR AND THE GIG ECONOMY: DISCRIMINATION IN THE GIG ECONOMY?

Most companies use recruiters, supervisors, and/or HR professionals to do their hiring, so if an applicant suffers discrimination it's usually pretty clear who did it.¹⁵ But what do you do when you're a gig worker, doing work through a gig economy company like Uber, Task Rabbit, or Fiverr? Here the people doing the "hiring" are usually Task Rabbit, Uber, or Fiverr users, and they're hiring based on reviews compiled from previous users, or from photos in your profile. What stops customers from illegally discriminating?

Unfortunately, the answer may be, "not much." For example, in one study of labor markets like Task Rabbit and Fiverr, black service providers got more negative reviews than did white ones. Because the rating algorithms are then based partly on prior customers' reviews, the black service providers were usually less likely to get new gigs. It's therefore a problem that gig companies (and customers) need to address.

Application Case

Tectonic Group

Written and copyrighted by Gary Dessler, PhD.

It's been estimated that there are more than 600,000 unfilled technical jobs (systems engineers, programmers, and so on) in the United States.¹⁶¹ Therefore, IT companies like Tectonic Group are continually battling for good applicants.

For many years, Tectonic outsourced app software development to Armenia; CEO Heather Terenzio flew twice a year to work with the people there. However, programmers' salaries in Eastern Europe were rising, and the distances involved and the language differences complicated managing the projects. Therefore, the CEO decided there had to be a better way. Since the programmers abroad required more and more detailed instructions, she

New Cases

New end-of-chapter cases have been added to the text. They replace older cases in these chapters. All other application cases have also been updated, as necessary.

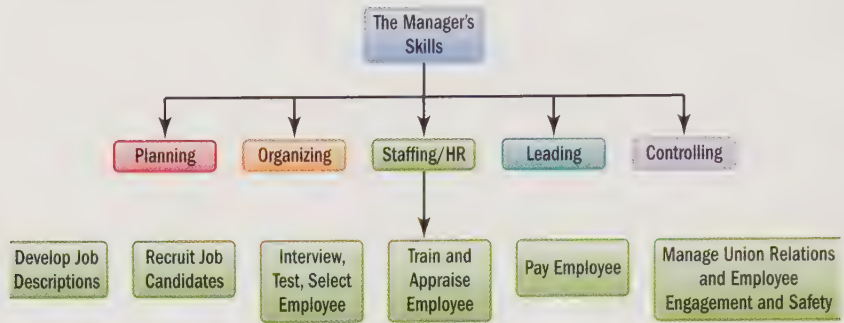
SOLVING TEACHING AND LEARNING CHALLENGES

Human Resource Management, 16th edition, provides students in human resource management courses and practicing managers with a complete and practical introduction to modern human resource management concepts and techniques in a highly readable form. This book has always emphasized giving all managers the skills they need to do their jobs. And today, with employers transferring more HR

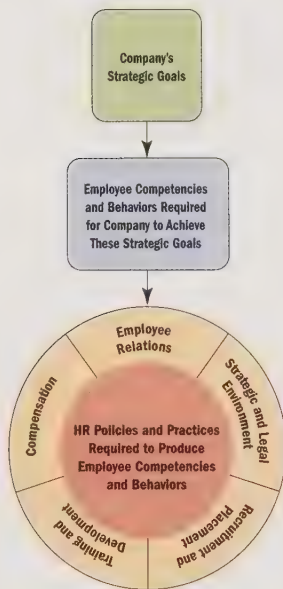
ⁱ <https://www.bls.gov/careeroutlook/2016/article/what-is-the-gig-economy.htm>, accessed June 29, 2018.

ⁱⁱ <https://www.forbes.com/sites/karstenstrauss/2017/02/21/what-is-driving-the-gig-economy/#11e46e81653c>; www.shrm.org/certification/pages/default.aspx#sthash.JRZQeAWR.dpuf, both accessed June 29, 2018.

tasks to line managers, it's more important than ever that all managers—not just HR managers—be skilled in human resource management concepts and techniques. As the following figure sums up, you'll therefore find an emphasis here on the practical material you need to perform your day-to-day management responsibilities, even if you never spend one day as an HR manager.



The following tools especially help address teaching and learning challenges.



For example, tied to the chapter-opening scenarios, the **Strategic Context** features in Chapters 3–18 show how actual managers' HR actions produced the employee behaviors that were required to achieve the company's strategic aims.

The Strategic HR Features

This book's Strategic HR features give students a bird's-eye view of how all the topics in each chapter fit together, and a tool instructors can use to illustrate these interrelationships.

As more employers transfer HR tasks to line managers, those managers need a "line of sight" that shows them how their HR actions impact the company's goals. This 16th edition therefore continues the book's emphasis on strategic human resource management and on improving performance, productivity, and profitability at work. This 16th edition also provides a comprehensive fully integrated treatment of strategic human resource management.

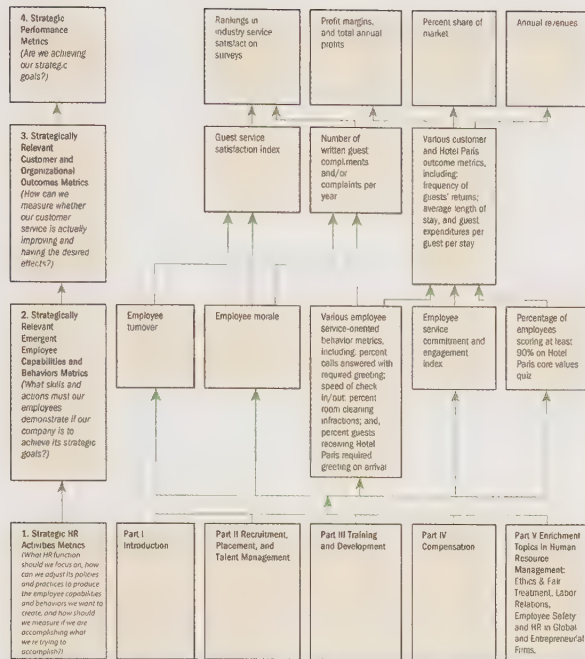
IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Wegmans Food Markets

Strategic compensation management means formulating a total rewards package that produces the employee skills and behaviors that the company needs to achieve its strategic goals.

Wegmans exemplifies this. It competes in the retail food sector, where profit margins are thin and where online competitors and giants like Walmart drive costs and prices down. The usual competitor's reaction is to cut employee benefits and costs.⁴⁸ Wegmans takes a different approach. Number 2 on Fortune's 100 Best Companies to Work For,⁴⁹ Wegmans views its workforce as an integral part of achieving Wegmans's strategic aims of *optimizing service while controlling costs by improving systems and productivity*. For example, one dairy department employee designed a new way to organize the cooler, thus improving ordering and inventory control.⁵⁰ The firm offers above-market pay rates, affordable health insurance, and a full range of employee benefits.⁵¹ Wegmans's pay policies thus aim to produce exactly the sorts of high-productivity employee behaviors the company needs to achieve its strategic aims.

It's likely that its pay policies are one reason for Wegmans's exceptional profitability. For example, its employee turnover (about 6% for full-timers) is well below the industry's overall average of about 47%.⁵² Its stores (which at about 120,000 square feet are much larger than competitors') average about \$950,000 a week in sales (compared to a national average of \$361,564), or about \$49 million in sales annually, compared with a typical Walmart store's grocery sales of \$23.5 million in sales.⁵³ As Wegmans's human resource head has said, good employees assure higher productivity, and that translates into better bottom-line results.⁵⁴



HR Scorecard for Hotel Paris International
 Note: An abbreviated example showing selected HR processes and outcomes aimed at implementing the competitive strategy. To use superior guest services to differentiate the Hotel Paris properties and thus increase the length of stays and the return rate of guests, and thus boost revenues and profitability and help the firm expand geographically. The specialized strategy map for each chapter's Hotel Paris case is in the chapter's accompanying MyLab Management.

In addition, a **Fully Integrated Strategy Case and Strategy Maps** help to provide the most comprehensive treatment of strategic human resource management in a HR survey text:

- Chapter 1 introduces and Chapter 3 presents the concepts and techniques of human resource strategy.
- Chapter 3 onward, every chapter contains a **continuing “Hotel Paris” case** (identified by an “Eiffel Tower” icon), written to help make strategic human resource management come alive for readers. The continuing case shows how this hotel’s HR director uses that chapter’s human resource management concepts and techniques to create HR policies and practices that produce the employee skills and behaviors the Hotel Paris needs to improve its service and thereby achieve its strategic goals.

Building Employee Engagement

Each chapter’s Building Employee Engagement features help to further integrate the chapter’s topics and to make the book a more coherent whole. *Employee engagement* refers to being psychologically involved in, connected to, and committed to getting one’s jobs done. You’ll find practical examples and advice on how managers build engaged employee work teams and companies. *Employee Engagement Guide for Managers* sections in Chapters 1–14 show how managers use human resource activities to improve employee engagement.

HOW TO EXECUTE AN EMPLOYEE ENGAGEMENT STRATEGY Actually executing Kia UK’s employee engagement HR strategy involved six steps (and these provide a roadmap for any such endeavor). First, Kia UK set *measurable objectives* for the program. These objectives included improving by at least 10% survey feedback scores for line managers’ behaviors in terms of communication, the quality of appraisal feedback they gave their direct reports, the recognition of work done, and the respect between manager and employee.⁸³ Other objectives included reducing employee turnover employment costs (e.g., recruitment costs) by at least 10% per year.

Second, Kia UK held an extensive *leadership development* program. For example, it sent all managers for training to improve their management skills. Kia then tested the new skills with “360-degree” assessment tools (having managers’ bosses, peers, and subordinates rate the managers’ new leadership skills).

Third, Kia UK instituted new *employee recognition programs*. These included, for instance, giving “Outstanding Awards” to selected employees quarterly, and “Kia thank you” cards for jobs well done.⁸⁴

Homework: Chapter 5: Warm Up

Score: 0 of 1 pt

1 of 12 (0 complete)

HW Score: 0%, 0 of 12 pts

Warm-up 5.1.1

Question Help

The process of deciding what positions the company needs to fill and how to best fill them is known as _____

A trend analysis

B alternative staffing

C workforce planning

D succession planning

E recruiting

Click to select your answer and then click Check Answer

?

All parts showing

DEVELOPING EMPLOYABILITY SKILLS

As noted earlier, every edition of this book has had the same aim: to provide all managers—not just HR managers—with the practical skills and knowledge they need to perform their day-to-day management responsibilities. A few examples of such skills you'll find here include:

Chapter 2: How to deal with a charge of discrimination

... You turn down a member of a protected group for a job. This person believes he or she was discriminated against due to being in a protected class, and decides to sue ... What should you do?

Chapter 4: How to write a job description

... A job description is a written statement of what the worker actually does, how he or she does it, and what the job's working conditions are. This information is in turn ...

Chapter 7: How to interview job candidates

... First make sure you understand the job and its human requirements. Then compose questions based on actual job duties from the job description ... Examples include (1) situational questions like "Suppose you were giving a sales presentation and a difficult technical question arose ...

Chapter 14: How to discipline an employee

... Make sure the evidence supports the charge of employee wrongdoing. (Arbitrators often cite "the employer's evidence did not support the charge.") ... Make sure to protect the employees' due process rights ...



Know Your Employment Law sections within each chapter discuss the practical implications of the employment laws that apply to that chapter's topics, such as the laws relating to recruitment (Chapter 5), selection (Chapter 6), training (Chapter 8), and safety (Chapter 16) that all managers should know.



Diversity Counts features provide practical insights for managing a diverse workforce, for instance, regarding gender bias in selection decisions, bias in performance appraisal, and "hidden" gender bias in some bonus plans (Chapter 12).

Various Improving Performance features demonstrate real-world human resource management tools and practices that managers can use to improve performance. The *performance* features include:



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Diversity can actually drive higher profits. In one study, researchers examined the diversity climate in 654 stores of a large U.S. retail chain. They defined *diversity climate* as the extent to which employees in the stores said the firm promotes equal opportunity and inclusion. They found the highest sales growth in stores with the highest pro-diversity climate, and the lowest in stores where subordinates and managers reported less hospitable diversity climates.⁹² Another study found racial discrimination to be related negatively to employee commitment, while organizational efforts to support diversity reduced such negative effects.⁹³ ■

Improving Performance: HR as a Profit Center contains actual examples of how human resource management practices add value by reducing costs or boosting revenues.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

How to Address Sexual Harassment⁶⁷

- Take all complaints about harassment seriously.
- Issue a strong policy statement condemning such behavior. Describe the prohibited conduct, assure protection against retaliation, describe a confidential complaint process, and provide impartial investigation and corrective action.

Improving Performance: HR Tools for Line Managers and Small Businesses explains that many line managers and entrepreneurs are “on their own” when it comes to human resource management, and describes straightforward HR tools such as work sampling tests that line managers and entrepreneurs can create and safely use to improve performance.

Improving Performance: HR Practices Around the Globe shows how actual companies around the globe use HR practices to improve their teams’ and companies’ performance, while illustrating the challenges managers face in managing internationally.

IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Career Development at Medtronic³⁴

Medtronic is a global medical technology company with more than 85,000 employees around the world. The company offers a wide range of career planning and development support tools aimed at helping employees understand their occupational strengths and weaknesses and reach their potential. These tools include customized development plans, self-assessment and feedback tools, mentoring programs, comprehensive on-site classes covering business, engineering, and science topics, tuition reimbursement scholarships, and online job listings so the employee can seek out new career opportunities within the company.

Trends Shaping HR Features

Just about every chapter again has one or more **Trends Shaping HR** features, each focusing on topics like Digital and Social Media, and other trends that affect HR practices.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Sitedocs Digital Workplace Safety

Safety compliance usually has been managed centrally, by human resource managers or by a specialized safety unit. However, new digital mobile device-based safety systems now give managers and even employees more influence over safety. For example, the SiteDocs digital safety management system lets the employer digitize, move, store, work with, and access safety documents via mobile devices (iPad) and the Web.⁷⁰ Employees can login via the mobile device and view and complete their safety documentation. These become available immediately to management. This enables management to monitor in real time whether employees are completing their documentation and to identify almost at once workplace hazards and incidents. ■



TRENDS SHAPING HR: ROBOTS

With more employees working alongside robots, safety standards are evolving. For example, industrial robots have speed and separation monitoring and safety stops so humans can “hand” them parts without the robot arm hitting them.⁷⁰ Many of the new so-called cobots have digital screen faces with human characteristics. For example, one cobot “glances” in the direction when it’s about to pick something up, to forewarn its human “colleagues.”⁷¹ ■



TRENDS SHAPING HR: LOCATION BEACONS

Beacons—tiny devices that continuously transmit radio signals identifying themselves—are becoming valuable occupational safety tools. Employers use beacons to keep track of employees, particularly if they’re in distress. Others use them to warn employees, such as when they’re too close to a danger zone.⁷⁴ ■

INSTRUCTOR TEACHING RESOURCES

This program comes with the following teaching resources.

Supplements available to instructors at www.pearsoned.co.in/garydessler	Features of the Supplement
Instructor's Manual authored by Susan Leshnower from Midland College	• Lecture Outlines • Chapter-by-chapter summaries— Where are we now • Examples and activities not in the main book • Annotated Outline • Teaching tips • Solutions to all questions, problems, and case problems in the book • Case Notes • Key Terms
Test Bank authored by Carol Heeter from Ivy Tech Community College	2,000 multiple-choice, true/false, short-answer questions with these annotations: • Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis) • Type (Multiple-choice, true/false, short-answer, essay) • Topic Explanation (The term or concept the question supports) • Learning outcome • AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge)
PowerPoints authored by Patricia Buhler from Goldey-Beacom College	Slides include all the graphs, tables, and equations in the textbook. PowerPoints meet accessibility standards for students with disabilities. Features include, but are not limited to: • Keyboard and Screen Reader access • Alternative text for images • High color contrast between background and foreground colors

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Gary Dessler,

Florida International University

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And the last word – Thank you God for all the blessings, strength, and opportunities.

Biju Varkkey,

Indian Institute of Management Ahmedabad



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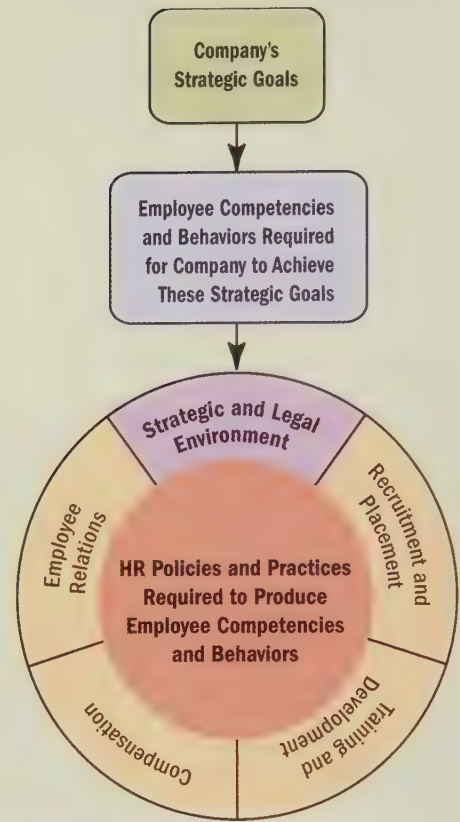
Introduction to Human Resource Management

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 1-1** **Explain** what human resource management is and how it relates to the management process.
- 1-2** **Briefly discuss and illustrate** the important trends influencing human resource management.
- 1-3** **Briefly describe** six important components or pillars of human resource management today.
- 1-4** **List** at least four important human resource manager competencies.
- 1-5** **Outline** the plan of this book.

UrbanClap (www.urbanclap.com), an Indian startup symbolizes what is new in human resource management. UrbanClap is a mobile market place for local services like housekeeping and personal services. Many young professionals with specific skills are registered with UrbanClap and they cater to service requests from registered customers. UrbanClap is among the fastest growing Indian startups, which allows skilled freelancers to get work and employers to find, screen and use them and make payments through an online mechanism.¹



WHERE ARE WE NOW ...

The purpose of this chapter is to explain what human resource management is, and why it's important to all managers. We'll see that human resource management activities such as hiring, training, appraising, compensating, and developing employees are part of every manager's job. And we'll see that human resource management is also a separate function, usually with its own human resource, or "HR," manager. The main topics we'll cover here include **What Is Human Resource Management?**, **The Trends Shaping Human Resource Management**, **The Components of Human Resource Management**, **The New Human Resource Manager**, and **The Plan of This Book**. The framework above (which introduces each chapter) makes this point: That the firm's HR policies and practices should produce the employee skills and behaviors the company needs to achieve its strategic aims.

LEARNING OBJECTIVE 1-1

Explain what human resource management is and how it relates to the management process.

organization

A group consisting of people with formally assigned roles who work together to achieve the organization's goals.

manager

Someone who is responsible for accomplishing the organization's goals, and who does so by managing the efforts of the organization's people.

managing

To perform five basic functions: planning, organizing, staffing, leading, and controlling.

management process

The five basic functions of planning, organizing, staffing, leading, and controlling.

human resource management (HRM)

The process of acquiring, training, appraising, and compensating employees, and of attending to their labor relations, health and safety, and fairness concerns.

What Is Human Resource Management?

To understand what human resource management is, it's useful to start with what managers do. Upwork is an *organization*. An **organization** consists of people (in this case, people like UrbanClap's own in-house Web designers and managers) with formally assigned roles who work together to achieve the organization's goals. A **manager** is someone who is responsible for accomplishing the organization's goals, and who does so by managing the efforts of the organization's people.

Most writers agree that **managing** involves performing five basic functions: planning, organizing, staffing, leading, and controlling. In total, these functions represent the **management process**. Some of the specific activities involved in each function include

- **Planning.** Establishing goals and standards; developing rules and procedures; developing plans and forecasts
- **Organizing.** Giving each subordinate a specific task; establishing departments; delegating authority to subordinates; establishing channels of authority and communication; coordinating the work of subordinates
- **Staffing.** Determining what type of people should be hired; recruiting prospective employees; selecting employees; setting performance standards; compensating employees; evaluating performance; counseling employees; training and developing employees
- **Leading.** Getting others to get the job done; maintaining morale; motivating subordinates
- **Controlling.** Setting standards such as sales quotas, quality standards, or production levels; checking to see how actual performance compares with these standards; taking corrective action as needed

In this book, we will focus on one of these functions—the staffing, personnel management, or *human resource management* function. **Human resource management (HRM)** is the process of acquiring, training, appraising, and compensating employees, and of attending to their labor relations, health and safety, and fairness concerns. The topics we'll discuss should therefore provide you with the concepts and techniques every manager needs to perform the “people,” or personnel, aspects of management. These include

- *Conducting job analyses* (determining the nature of each employee's job).
- *Planning human resource needs and recruiting* job candidates.
- *Selecting* job candidates.
- *Orienting and training* new employees.
- *Managing wages and salaries* (compensating employees).
- *Providing incentives and benefits.*
- *Appraising performance.*
- *Communicating* (interviewing, counseling, disciplining).
- *Training employees and developing managers.*
- *Building employee relations and engagement.*

And what every manager should know about:

- Labor law and statutory compliances.
- Employee health and safety.
- Handling grievances and labor relations.

Why Is Human Resource Management Important to All Managers?

In the Indian context as well, human resource management is important to all managers because organizations, nowadays, give much more importance to people than earlier.

AVOID PERSONNEL MISTAKES First, having this knowledge will help you avoid the *personnel mistakes you don't want to make* while managing. For example, you don't want

- To have your employees not doing their best.
- To hire the wrong person for the job.
- To experience high turnover.
- To have your company in court due to your discriminatory actions.
- To have an employee hurt due to unsafe practices.
- To let a lack of training undermine your department's effectiveness.
- To commit any unfair labor practices or receive notice of statutory non-compliance from the labor department.

Carefully studying this book can help you avoid mistakes like these.

IMPROVING PROFITS AND PERFORMANCE More important, it can *help ensure that you get results—through people*.² Remember that you could do everything else right as a manager—lay brilliant plans, draw clear organization charts, set up modern assembly lines, and use sophisticated accounting controls—but still fail, for instance, by hiring the wrong people or by not motivating subordinates. On the other hand, many managers—from generals to presidents to supervisors—have been successful even without adequate plans, organizations, or controls. They were successful because they had the knack for hiring the right people for the right jobs and then motivating, appraising, and developing them. Remember as you read this book that *getting results* is the bottom line of managing and that, as a manager, you will have to get these results through people. This fact hasn't changed from the dawn of management. As one company president summed it up:

For many years it has been said that capital is the bottleneck for a developing industry. I don't think this any longer holds true. I think it's the workforce and the company's inability to recruit and maintain a good workforce that does constitute the bottleneck for production. I don't know of any major project backed by good ideas, vigor, and enthusiasm that has been stopped by a shortage of cash. I do know of industries whose growth has been partly stopped or hampered because they can't maintain an efficient and enthusiastic labor force, and I think this will hold true even more in the future.³

Because of global competition, technological advances, and economic turmoil, that statement has never been truer than it is today. Human resource management methods like those in this book can help any line manager/supervisor (or HR manager) boost his or her team's and company's levels of engagement, profits, and performance. Here are two examples we'll meet in this book:

NTPC Limited is India's largest state-owned power generation company. It is considered to be a good employer with innovative HRM practices. The company places employees before Plant Load Factor (or PLF, the ratio between actual power generation and maximum possible for a

power plant), which indicates the importance given to human resource management. Along with keeping in mind the growth and profitability of the firm, NTPC also respects the personal growth and well being of its employees and their families by providing excellent facilities such as residential townships, social clubs, education facilities, hospitals, child-care benefits, and post-retirement medical benefits. In order to provide an opportunity for employee to enhance their skills and qualifications through further education, NTPC also has linkages with top-ranked educational institutions and colleges such as IIT Delhi, BITS Pilani, MDI Gurgaon, and Indian Institute of Managements (IIMs) to make available various educational courses for their employees.⁴

YOU MAY SPEND SOME TIME AS AN HR MANAGER Here is another reason to study this book: *you might spend time as a human resource manager*. For example, about a third of large U.S. businesses surveyed appointed non-HR managers to be their top human resource executives. Thus, Pearson Corporation (which publishes this book) promoted the head of one of its publishing divisions to chief human resource executive at its corporate headquarters. Many Indian companies also have asked managers with line experience to lead the HR function.⁵ Why? Some think these people may be better equipped to integrate the firm's human resource activities (such as pay policies) with the company's strategic needs (such as by tying executives' incentives to corporate goals).⁶ Appointing non-HR people can also be good for the manager. For example, one CEO served a three-year stint as chief human resource officer on the way to becoming CEO. He said the experience he got was invaluable in learning how to develop leaders, and in understanding the human side of transforming a company.⁷ It's also a trend to offer HR specialists a posting in the line function, so that they are exposed to business operations.

However most top human resource executives do have prior human resource experience. About 80% of those in one survey worked their way up within HR. The Society for Human Resource Management (SHRM) offers information on topics such as alternative career paths within human resource management.⁸ In India, the National Institute of Personnel Management (NIPM) conducts a master's course in HR. NIPM, National Human Resource Development Network (NHRD) and Indian Society of Training and Development (ISTD) offers various short-term certification courses in HRM. Most of the HR managers in the country have qualifications in management, social work, or law. Apart from few IIMs, XLRI, TISS, Rajagiri College, and MDI Gurugram are some of the institutes offering postgraduate level HR programs.⁹

HR FOR SMALL BUSINESSES And here is one other reason to study this book: *you may well end up as your own human resource manager*. As per the data published in the MSME Annual Report for the year 2014–15, it was projected that by 2013–14 approximately 488.56 lakh MSME enterprises would be in existence and they shall generate huge employment.

After all the initiatives provided by the government focus of today's generation is to either work for small businesses or create their own small businesses for which they get complete support from the Government.¹⁰ Small firms generally don't have the critical mass required for a full-time human resource

manager (let alone an HR department).¹¹ The owner and his or her other managers (and perhaps assistant) handle tasks like signing employees on. So studying the techniques in this book should help you to manage a small firm's human resources more effectively. We'll address human resource management for small businesses in later chapters.

Line and Staff Aspects of Human Resource Management

All managers have always been, in a sense, human resource managers, because they all get involved in recruiting, interviewing, selecting, and training their employees. Yet most firms also have a human resource department with its own top manager. How do the duties of this human resource manager and department relate to the human resource duties of sales and production and other managers? Answering this requires a short definition of line versus staff authority. **Authority** is the right to make decisions, to direct the work of others, and to give orders. Managers usually distinguish between line authority and staff authority.

In organizations, **line authority** traditionally gives managers the right to *issue orders* to other managers or employees. Line authority therefore creates a superior (order giver)–subordinate (order receiver) relationship. When the vice president of sales tells her sales director to “get the sales presentation ready by Tuesday,” she is exercising her line authority. **Staff authority** gives a manager the right to *advise* other managers or employees. It creates an advisory relationship. When the human resource manager suggests that the plant manager use a particular selection test, he or she is exercising staff authority.

On the organization chart, managers with line authority are **line managers**. Those with staff (advisory) authority are **staff managers**. In popular usage, people tend to associate line managers with managing departments (like sales or production) that are crucial for the company's survival. Staff managers generally run departments that are advisory or supportive, like purchasing and human resource management. Human resource managers are usually staff managers. They assist and advise line managers in areas like recruiting, hiring, and compensation.

Line Managers' Human Resource Management Responsibilities

However, line managers do have many human resource duties. This is because the direct handling of people has always been part of every line manager's duties, from president down to first-line supervisors. One major company outlines its line supervisors' responsibilities for effective human resource management under these general headings:

1. Placing the right person in the right job
2. Starting new employees in the organization (induction or orientation)
3. Training employees for jobs that are new to them
4. Improving the job performance of each person
5. Gaining creative cooperation and developing smooth working relationships
6. Interpreting the company's policies and procedures
7. Controlling labor costs
8. Developing the abilities of each person
9. Creating and maintaining departmental morale
10. Protecting employees' health and physical conditions

authority

The right to make decisions, direct others' work, and give orders.

line authority

Traditionally gives managers the right to issue orders to other managers or employees.

staff authority

Gives a manager the right to advise other managers or employees.

line manager

A manager who is authorized to direct the work of subordinates and is responsible for accomplishing the organization's tasks.

staff manager

A manager who assists and advises line managers.

And we'll see that, if anything, social media tools like *LinkedIn hiring* are expanding many line managers' HR responsibilities. That's why in a recent survey, 49% of the employers were taking steps to "Improve line managers' people management skills."¹²

The Human Resource Department

In small organizations, line managers or the CEO may carry out all these personnel duties unassisted. But as the organization grows, line managers usually need the assistance, specialized knowledge, and advice of a separate human resource staff.¹³ In larger firms, the *human resource department* provides such specialized assistance. In Indian family businesses and SMEs, most of the times, it is observed that the entrepreneur himself or the family members act as the human resource manager. Figure 1-1 shows human resource management jobs in one organization.¹⁴ Typical positions include compensation and benefits manager, employment and recruiting supervisor, training specialist, and employee relations executive.

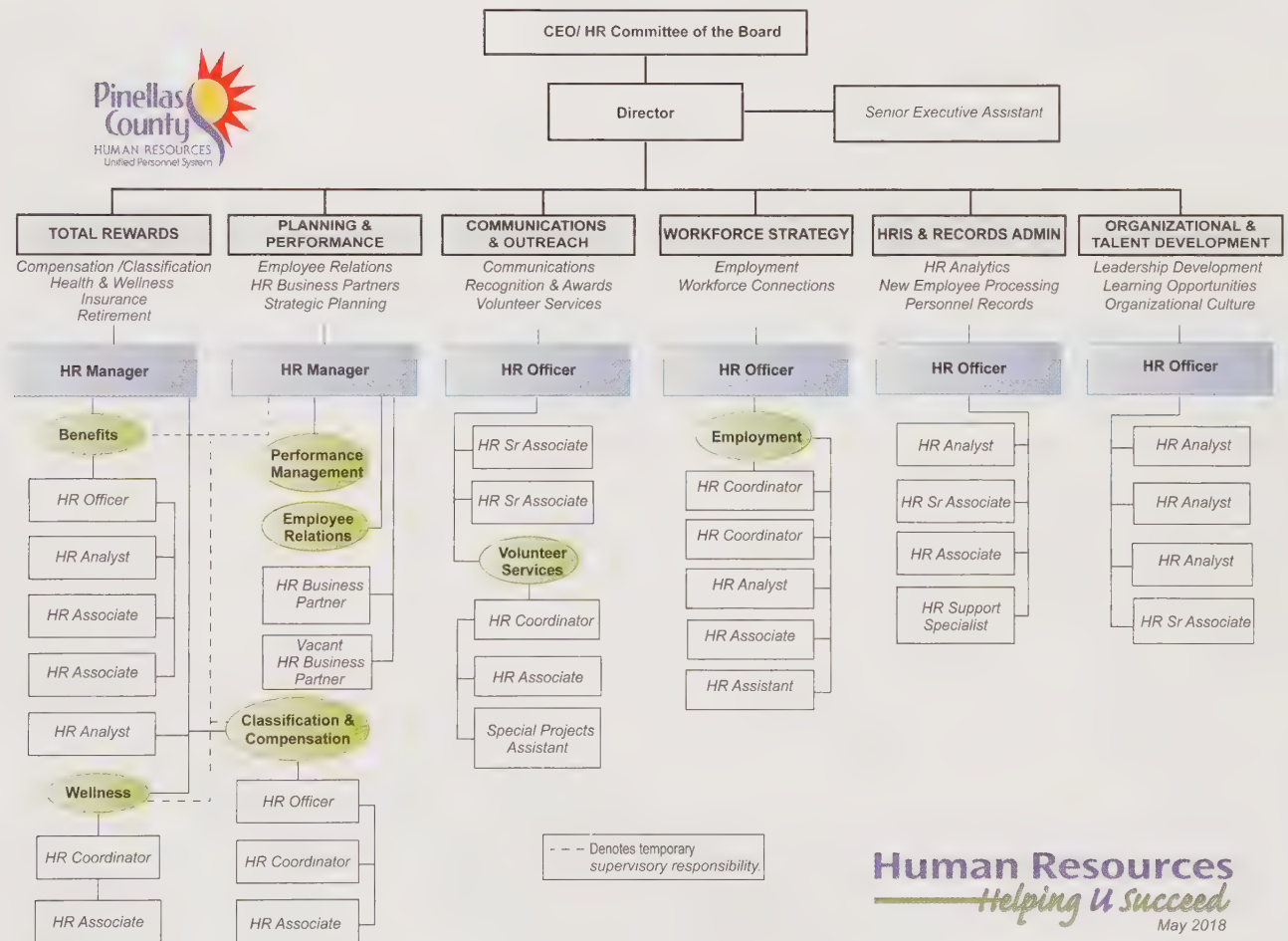


FIGURE 1-1 Human Resource Department Organization Chart Showing Typical HR Job Titles

Source: "Human Resource Development Organization Chart Showing Typical HR Job Titles," www.co.pinellas.fl.us/persnl/pdf/orgchart.pdf. Courtesy of Pinellas County Human Resources. Reprinted with permission.

Examples of job duties include

- **Recruiters:** Use various methods including contacts within the community and print and online media to search for qualified job applicants.
- **Diversity Officer or SC/ST cell (in PSU government):** Investigate and resolve grievances, examine organizational practices for potential violations, and compile and submit compliance reports.
- **Job analysts:** Collect and examine detailed information about job duties to prepare job descriptions.
- **Compensation managers:** Develop compensation plans and handle the employee benefits program.
- **Training or Learning and Development specialists:** Plan, organize, and direct training/learning activities.
- **Labor (employment/industrial) relations specialists:** Advise management on all aspects of union–management relations.
- **Employee Welfare Officer:** Takes care of employee welfare, as prescribed by the law (The Factories Act, 1948).

Some of The Newer Titles in HRM Function are:

- **Happiness Officer:** Responsible for helping organizations to improve employee engagement levels by helping them to achieve happiness, both personally and professionally.
- **Talent Management Specialist:** Responsible for hiring and managing high performing and committed employees, and helping organizations retain them.
- **HR/People Analytics Officer:** Analyze trends using big data and analytical tool and provide insights for people management related decision-making.

In practice, HR and line managers share responsibility for most human resource activities. For example, human resource and line managers typically share responsibility for skills training. Thus the supervisor might describe what training she thinks the new employee needs, HR might design the training, and the supervisor might then provide on-the-job training.

NEW APPROACHES TO ORGANIZING HR However, what HR departments do and how they do it are changing. Because of this, many employers are taking a new look at how they organize their human resource functions.¹⁵ For example, one survey found that 44% of the large firms surveyed planned to change how they organize and deliver HR services.¹⁶ Most plan to use technology to institute more “shared services” (or “transactional”) arrangements.¹⁷ The Amara Raja Group, Hyderabad, has set up an in-house shared services center to provide support to all group entities. Husys Consulting Limited, an HR function outsourcing company, provides such support to many SME clients. These establish centralized HR units whose employees are shared by all the companies’ departments to assist the department’s line managers in human resource matters. These shared services HR teams generally offer their services through intranets or centralized call centers; they aim to provide managers and employees with specialized support in day-to-day HR activities (such as discipline problems). You may also find specialized corporate HR teams within a company. These assist top management in top-level issues such as developing the personnel aspects of the company’s long-term strategic plan. Embedded HR teams have HR generalists (also known as “relationship managers” or

“HR business partners”) assigned to functional departments like sales and production. They provide the selection and other assistance the departments need. Center of expertise are basically specialized HR consulting firms within the company. For example, one center might provide specialized advice in areas such as organizational change to all the company’s various units. The HR function of Amara Raja Group is organized along the above mentioned pattern. The HRM software helps to simplify the work of HR managers and employees. ZingHR, an IT firm from Mumbai has developed a cloud-based software called ‘Hire to Retire’ that helps in managing human resources from the day an employee thinks of applying to the company until the day of retirement. To cater to the current and future demands, ZingHR has been made mobile enabled, and it is available in app format.

For one thing, employers are changing how they organize and deliver HR services. For example, one survey found that 55% of the firms surveyed were actively “reengineering” their human resource management processes, (for example, by moving recruiting from in-house recruiters to online and social media platforms).¹⁸ Most are “actively seeking to transform” how they deliver human resource services, largely by adopting new HR technology tools (such as online training portals). Many are using technology to institute more “*shared services*” arrangements.

LEARNING OBJECTIVE 1-2

Briefly discuss and illustrate the important trends influencing human resource management.

The Trends Shaping Human Resource Management

Working cooperatively with line managers, human resource managers have long helped employers hire and fire employees, administer benefits, and conduct appraisals. However, trends are occurring that are changing how employers get their human resource management tasks done. The trends include *workforce demographic trends, trends in jobs people do, technological trends, and globalization and economic trends.*

Workforce Demographics and Diversity Trends

Despite the recession and job losses, trends in workforce demographic are making hiring good employees more of a challenge around the world. India has also not been immune to these effects. Acute skill shortage has been identified as the main hurdle in achieving the demographic dividend from its young, growing population. The Indian government has made skill development a top priority in its agenda of economic growth. Most of the growing sectors in India face acute skill shortage. The country’s growing hospitality sector is expected to require more than 2,00,000 trained people annually, while the annual supply is less than 10% of the required number. Core sectors like power and petroleum are also facing the skill supply crunch. The working group on power for the Eleventh Five-Year Plan has estimated the immediate shortage of power talent at 33%. The growth experienced in other sectors of the economy, including financial services, manufacturing, retail, etc., has created a huge demand for skill labor. The Indian fish processing industry’s experience, which is a large foreign exchange earner, is interesting. In recent years, the processing companies are experiencing difficulty to attract workers, mostly females. The traditional workers prefer other employment avenues like retail sector. Skilled labor shortage has also prompted the construction industry to source specialized talent from abroad (e.g., carpenters from South Korea). Other firms are shifting to nontraditional workers. Nontraditional workers are those who hold multiple jobs, or who are temporary or part-time workers,

or those working in alternative arrangements (such as mother-daughter team sharing one clerical job). Others serve as “independent contractors” for specific projects.

Some employers find millennials or “generation Y” employees (those born roughly between 1982 and 2004) a challenge to deal with, and this isn’t just an American phenomenon. For example, the New York Times recently reported that because China’s one-child rule led many parents to pamper their children. India’s millennial and young workforce entering the job market is as an asset, though finding employment opportunities for them is a challenge. China’s senior army officers are having problems getting millennial-aged volunteers and conscripts to shape-up.¹⁹

Trends in Jobs People Do

There are three big trends in the jobs people do. First, work has shifted from manufacturing to service. In India, too, the contribution of services sector has outgrown the agricultural sector. Today over two-thirds of the U.S. workforce is employed in producing and delivering services, not products. By 2024, service-providing industries are expected to account for 129 million out of 160 million (81%) of wage and salary jobs overall.²⁰ So in the next few years, almost all the new jobs added in the United States will be in services, not in goods-producing industries. With advancements in technology and the growing need for work-life balance, the way people work in India is changing continuously. Unlike the traditional jobs where people went to work in office, options like working-from-home and alternate places are becoming a possibility. Freelancing is a growing trend in India just like the western countries. Truelancer is one such online platform of 15 million, which is growing day by day; in comparison, there are about 53 million freelancers in the U.S. In a report published by India Microfinance in 2018, it is estimated that there are approximately 15 million freelancers based mainly in the urban areas of India.²¹

ON-DEMAND WORKERS Second, today in companies like Uber and Upwork, most workers aren’t employees at all: They’re freelancers and independent contractor–gig workers, who work when they can, on what they want to work on, when they’re needed.²² The head of one such firm said employers view those workers as “mobile, independent bundles of skills.”²³ Uber signs up thousands and thousands of new independent contractor drivers per month.²⁴ And people don’t just do gigs full-time. About one-third of *all* workers do gig work on the side, such as teachers who drive for Uber.²⁵ The accompanying HR and the Gig Economy feature elaborates.

■ HR AND THE GIG ECONOMY *ON-DEMAND WORKERS*

Upwork (www.upwork.com)²⁶ symbolizes on-demand work. Millions of freelancers from graphic designers to translators, accountants, and lawyers register on its site. Employers use it to find, screen, hire, and pay the talent they need, in more than 180 countries.²⁷ These workers are part of a vast workforce comprised of contract, temp, freelance, independent contractor, “on-demand,” or simply “gig” workers. Other on-demand sites include Amazon’s Mechanical Turk, IKEA’s TaskRabbit, and Handy (which lets users tap Handy’s thousands of freelance cleaners and furniture assemblers when they need jobs done), and, of course, Uber, Ola and G Auto.²⁸ Such workers may comprise half the workforce in the next 10 years.²⁹

But freelance work goes beyond sites like Handy and Uber. For example employers are using more temp workers and contractors. Before it combined with Alaska Air group, Virgin America used contractors rather than employees for jobs including baggage delivery, reservations, and heavy maintenance. A trucking company supplies contract workers who unload shipping containers at Walmart warehouses. And (somewhat amazingly) even Google's parent, Alphabet Inc., has about the same number of outsourced jobs as full-time employees.³⁰ We'll see in gig economy features like these that companies that rely on freelancers and other such nontraditional employees need special HR policies and practices to deal with them.

Gig economy work has detractors.³¹ Some people who do these jobs say they can feel somewhat disrespected. One critic says the work is unpredictable and insecure. An article in the *New York Times* said this: "The larger worry about on-demand jobs is not about benefits, but about a lack of agency—a future in which computers, rather than humans, determine what you do, when and for how much."³² Some gig workers are taking action. For example, some Uber drivers in U.S. sued to unionize. Indian gig workers engaged with Uber and Ola, and Swiggy delivery personnel also staged strikes in different cities. Their demands also were more or less the same.

Anyone using Uber already knows about on-demand workers. It is signing up tens of thousands of new independent contractor drivers per week, a rate that is doubling fast.

Russell Hart / Alamy Stock Photo



HUMAN CAPITAL Finally, more jobs are becoming “high tech.” Jobs like engineer always emphasized knowledge and education. The big change now is that even traditional manufacturing jobs like assembler are increasingly high tech. Similarly bank tellers, retail clerks, bill collectors, mortgage processors, and package deliverers today need a level of technological sophistication they didn’t need a few years ago. So in our increasingly knowledge-based economy, “. . . the acquisition and development of superior human capital appears essential to firms’ profitability and success.”³³

For managers, the challenge here is that they have to manage such workers differently. For example, letting workers make more decisions presumes you’ve selected, trained, and rewarded them to make more decisions themselves. This means adjusting how you select, train, and engage these employees.³⁴ To paraphrase one recent headline, technology is useless without skilled workers.³⁵ The accompanying HR as a Profit Center discussion illustrates how one employer capitalized on its human capital.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Boosting Customer Service

A bank installed special software that made it easier for its customer service representatives to handle customers' inquiries. However, the bank did not otherwise change the service reps' jobs in any way. Here, the new software system did help the service reps handle more calls. But otherwise, this bank saw no big performance gains.³⁶

A second bank installed the same software. But, seeking to capitalize on how the new software freed up customer reps' time, this bank also had its human resource team upgrade the customer service representatives' jobs. This bank taught them how to sell more of the bank's services, gave them more authority to make decisions, and raised their wages. Here, the new computer system dramatically improved product sales and profitability, thanks to the newly trained and empowered customer service reps. Value-added human resource practices like these improve employee performance and company profitability.³⁷ ■

Employee Engagement at the Bank of Baroda

Bank of Baroda (BoB), a leading Indian public sector bank with international presence, considers its employees as the primary driver of business performance. In 2015–16, after the business performance dipped, BoB initiated a transformation exercise throughout the organization. The aim was to create a more agile and capable organization, equipped with more effective control systems and digital technology. The transformation was aimed to make BoB future ready and competitive.

While process innovation and technology infusion could help the bank, success of the transformation exercise in the banking industry depended heavily on high levels of employee engagement. BoB had 52,000 employees across the globe and engaging all of them was necessary. In terms of age composition, majority of the employees were young, and a higher number of women had joined the ranks.

At first, the Human Resource (HR) department, with support from an external consultant, conducted an Employee Engagement Survey (ESS) in February 2016. The aim of this survey was to understand the engagement levels of employees, particularly their perceptions, beliefs, views, etc., so that the HR department could tailor various HR activities or initiatives to address the gaps and to improve the employee engagement levels. More than 85% of the staff members (officers and clerks) participated in this survey. The engagement scores were around 55%, as against the industry average of 65% (approx). Hence, it was felt that an immediate focus was required on reducing the proportion of 'Actively Disengaged' employees. Other key findings of the survey were around inadequate leadership connect, inadequate role clarity guidance, work tasks, rewards and recognition programs, etc., The findings were shared with the Board, top management, and all employees including Officers' Association and Unions. The HR department charted different action programs to improve the overall engagement levels of employees. The initiatives had the support of BoB's Board of Directors and top management.

To improve engagement levels, BoB launched Baroda Anubhuti Program. It was officially inaugurated on the bank's foundation day, i.e., 20 July 2016. This initiative was designed to augment the overall employee experience while working in BoB. After the launch of this program, several other initiatives were also designed and introduced.

The aim of these initiatives was to foster the spirit of positive attitude, recognition measures, and team bonding leading to improved business outcomes and to reach out to all employees. At present, five initiatives are operating under the Baroda Anubhuti Program, which are:

1. Employee of the Month

Identified in every branch, every month, special badge and rolling trophy is awarded.

2. Spot Recognition Prizes

Capture 'WOW' moments in branch offices and rewarding them.

3. Zero (Fun) Hour

Organize at least one occasion every month, for activities that infuse fun and entertainment.

4. Compulsory Community Service or Social Service Activity By Employees

Mandatory community outreach activity once in six months. The activity has to be a collective effort, i.e., all employees and families should also join. Separate budget allocation for each branch.

5. Anubhuti Workshops at Bank Branches

Brainstorming workshops of staff members on how to improve work climate, employee involvement, customer experience, and business performance. To be facilitated by HR professionals who would travel to locations.

Besides this, a specified Employee Experience Manager in each regional office has been identified, who is responsible for driving engagement initiatives. With this executive's support, a few more initiatives like sports club of employees, organizing league-type competitors, encouraging fitness and wellness among employees, dramatics and debate clubs, and community outreach activities were introduced. Unlike the traditional approach of one program for the entire bank, each region had the flexibility to customize these initiatives, without losing sight of the big picture.

Globalization Trends

Globalization refers to companies extending their sales, ownership, and/or manufacturing to new markets abroad. Thus, Toyota builds Camrys in Kentucky, while Apple assembles iPhones in China. India has become the hub for IT enabled processes and Indian companies like TCS and Wipro support global Fortune 500 companies and governments in managing their IT systems. Free trade areas—agreements that reduce tariffs and barriers among trading partners—further encourage international trade. The North American Free Trade Agreement (NAFTA), South Asian Association for Regional Cooperation (SAARC) and the European Union (EU) are examples.

Globalization has boomed for the past 50 or so years. For example, the total of U.S. imports plus exports rose from \$562 billion in 1980, to about \$5.2 trillion recently.³⁸ Evolving economic and political philosophies drove

this boom. Governments dropped cross-border taxes or tariffs, formed economic free trade areas, and took other steps to encourage the free flow of trade among countries. The economic rationale was that by doing so, all countries would gain, and indeed, economies around the world did grow.

At the same time, globalization vastly increased international competition. More globalization meant more competition, and more competition meant more pressure to be “world class”—to lower costs, to make employees more productive, and to do things better and less expensively. Today a loss of jobs and growing income inequities are prompting some to rethink the wisdom of globalization.³⁹

So globalization hasn’t been without significant cost. As multinational companies jockey for position, many transfer operations abroad, not just to seek cheaper labor but also to tap into new markets. For example, Toyota has thousands of sales employees based in America, while GE has over 10,000 employees in France. The search for greater efficiencies prompts some employers to *offshore* (export jobs to lower-cost locations abroad, as when Dell and GE offshored some call-center jobs to India. While Deloitte has established large offshore centers in India, IBM has significant number of employees working from India and serving their international clients.). Some employers offshore even highly skilled jobs such as lawyer.⁴⁰ Managing the “people” aspects of globalization is a big task for companies that expand abroad—and for their HR managers.⁴¹

Economic Trends

Although globalization supported a growing global economy, the period from roughly 2007–2015 was difficult economically. As you can see in Figure 1-2, gross domestic product (GDP)—a measure of the United States of America’s total output—boomed between 2001 and 2007. During this period, home prices (see Figure 1-3) leaped as much as 20% per year. Unemployment remained docile at about 4.7%.⁴² Then, around 2007–2008, all these measures fell off a cliff. GDP fell. Home prices dropped by 10% or more (depending on city). Unemployment nationwide soon rose to more than 10%.

Why did all this happen? It’s complicated. Many governments stripped away rules and regulations. For example, in America and Europe, the rules that prevented commercial banks from expanding into new businesses such as investment banking were relaxed. Giant, multinational “financial supermarkets” such as Citibank emerged. With fewer regulations, more businesses and consumers were soon deeply in debt. Homebuyers bought homes with little money down. Banks freely lent money to developers to build more homes. For almost 20 years, U.S. consumers spent more than they earned. The United States became a debtor nation. Its balance of payments (exports minus imports) went from a healthy *positive* \$3.5 billion in 1960, to a huge *minus* (imports exceeded exports) \$497 billion deficit more recently.⁴³ The only way the country could keep buying more from abroad than it sold was by borrowing money. So, much of the boom was built on debt.

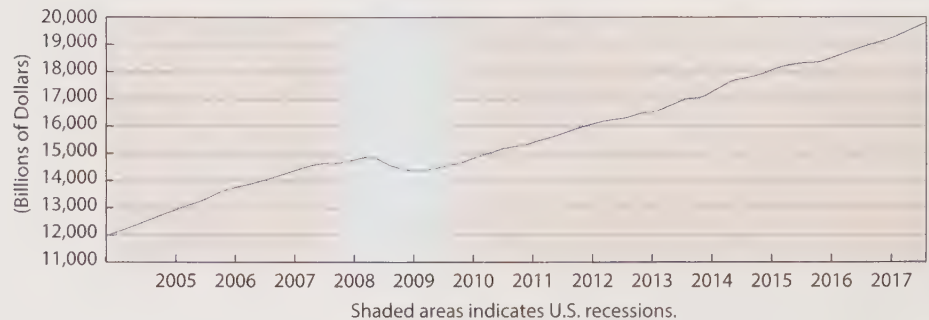
Around 2007, all those years of accumulating debt ran their course. Banks and other financial institutions found themselves owning trillions of dollars of worthless loans. Governments stepped in to try to prevent their collapse. Lending dried up. Many businesses and consumers stopped buying. The economy tanked.

Economic trends have moved up today, and hopefully they will continue to do so. For example, the unemployment rate had fallen from a high of more than 10% a few years ago to around 5% in 2015, and to about 4% in 2018, and GDP was growing at about 4.0% in 2018.⁴⁴

However, that doesn't necessarily mean clear sailing for the economy. For one thing, the Federal Reserve Board, which supported economic expansion after the Great Recession, began raising interest rates as a guard against

FIGURE 1-2 Gross Domestic Product, 2005–2017

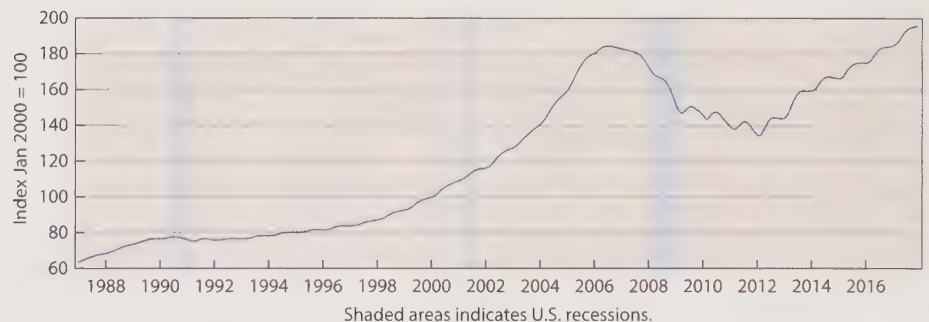
Source: St. Louis Federal Reserve Bank, <https://fred.stlouisfed.org/series/GDP>, accessed March 9, 2018.



inflationary pressures. For another, productivity is rising more slowly than in the past, which may further retard economic growth.⁴⁵ (Automation may change that. In Asia robots are replacing human labor in clothing factories, and many experts predict automation will soon replace jobs ranging from bookkeepers and telemarketers to cashiers, retail salespeople, and, alas, human resources assistants.)⁴⁶ And after the experience of 2007–2009, it's doubtful that the leveraging and globalization that helped drive economic growth for the previous 50 years will continue unabated. Add it all up, and the bottom line could possibly be slowing economic growth ahead. Overall, the Bureau of Labor Statistics and the Congressional Budget Office project that gross domestic product (GDP) will increase by about 2.0% annually from 2020 to 2026, slower than the 3% or higher that more or less prevailed from the mid-1990s through the mid-2000s.⁴⁷

FIGURE 1-3 Case-Shiller U.S. National Home Price Index, 1988–2016

Source: St. Louis Federal Reserve Bank, <https://fred.stlouisfed.org/series/CSUSHPINSA>, accessed March 9, 2018.



THE UNBALANCED LABOR FORCE Furthermore, demand and supply for workers is unbalanced; for example, the unemployment rate for, say, recent college graduates in general was higher than that of software engineering graduates.⁴⁸ In fact, almost half of employed U.S. college graduates are in jobs that generally require less than a four-year college education.⁴⁹ Why did this happen? In brief, because most of the jobs that the economy added in the past few years don't require college educations, and the Bureau of Labor

Statistics says that will probably continue. Occupations that *do not* typically require postsecondary education employed nearly two-thirds of workers recently.⁵⁰ Similarly, about two-thirds of the occupations with the largest projected employment growth from 2014 to 2024 typically do not require postsecondary education for entry.⁵¹ Such imbalances are complicated by a skills gap.

Unemployment in India is also at high levels. The periodic labor force survey (PLFS) places Indian unemployment figure for FY 2018 at 6.1%. The rural and urban unemployment was at 5.3% and 7.8% respectively.⁵² The above figure was questioned in terms of its comparability with previous figures. The result, across many nations is an unbalanced labor force: in some occupations unemployment rates are low, while in others unemployment rates are still relatively high; recruiters in many companies can't find candidates, while in others there's a wealth of candidates;⁵³ and many people working today are in jobs "below" their expertise (which may or may not help to explain why about 70% of employees report being psychologically disengaged at work). In any case, the bottom line is more pressure on employers (and their human resource managers and line managers) to get the best efforts from their employees.

Technology Trends

Technology is changing human resource management in two main ways. First (as we saw), technological change is affecting *the nature of jobs*.⁵⁴ When someone thinks of "tech jobs," jobs at Google come to mind, but technology affects all sorts of jobs. At an Alcoa plant in Iowa, a computer at each workstation helps employees control their machines or communicate data. Employees type their commands into computerized machines that create precision parts.⁵⁵

Second, technology is changing *how employers get human resource management tasks done*. In one survey 41% of companies were designing mobile apps to deliver human resource management services, and about a third were using artificial intelligence.⁵⁶ Several technologies are important here:

- Employers use *social media* tools such as Twitter, Facebook, and LinkedIn (rather than, say, employment agencies) to recruit new employees. Accenture estimates that social media tools like LinkedIn will soon produce up to 80% of new recruits—often letting line managers bypass HR and do their own recruiting.⁵⁷ Sites such as Glassdoor and JobBite let their members share insights into employers, including commentaries, salary reports, and CEO approval ratings. According to one report, 48% of job seekers surveyed said they've used Glassdoor during their job search.⁵⁸ This transparency prompts sensible human resource managers to redouble their efforts to ensure that their internal processes (such as performance appraisals) are civil.
- Employers use *mobile applications*, for instance, to monitor employee location and to provide digital photos at the facility clock-in location to identify workers.
- Web sites such as Knack, Gild, and True Office enable employers to inject *gaming* features into training, performance appraisal, and recruiting.
- *Cloud computing*-based tools enable employers to monitor things like a team's goal attainment and to provide real-time direct evaluative

feedback. Others use cloud-based systems to track employee engagement in real time via quick surveys. SAP and Kronos offer cloud-based systems for in-taking, tracking, and scheduling freelance gig workers.⁵⁹ Indian HR software firm, ZingHR offers cloud-based HCM (Human Capital Management) solution software that takes care of various HR functions in digital mode. It is now working on an upgraded version of the software, which incorporates digital hiring and on-boarding, payroll processing, and performance management digitally. The upgraded software will be capable of picking up trends and patterns which can be used for faster and better decision-making.

- *Data analytics* basically means using statistical techniques, algorithms, and problem solving to identify relationships among data for the purpose of solving particular problems (such as how can I tell in advance which of my best employees is likely to quit?). When applied to human resource management, data analytics is called *talent analytics*.

As one example, an employer operated for many years on the assumption that what mattered in hiring was the school the candidate attended, the grades they had, and their references. A retrospective talent analytics study showed that these traits didn't matter at all. What mattered were things like: their résumés were grammatically correct, they didn't quit school until obtaining some degree, and they were able to succeed with vague instructions.⁶⁰ At GE, an analytics tool helps management identify when key employees are likely to leave GE.⁶¹ When executives at Shell needed employees with expertise in car maintenance, it used its analytics-based talent search algorithm to scan current Shell employees to find those with the right skills.⁶²

- *Artificial intelligence* (AI) basically means using computers to do tasks in human-like ways. For example, companies use AI for: scanning and transferring customer address changes from e-mails to the company's data records ("automation"); and to "learn" and predict which job applicants will succeed, and which are most likely to leave ("analysis"). And, when you call an airline and find yourself answering questions from an automated system, they're using AI to "engage" with customers.⁶³ At one insurance firm in Japan, IBM's Watson artificial intelligence system enables inexperienced employees to analyze claims like experts.⁶⁴
- *Augmented reality* (AR) transforms huge amounts of data and superimposes digital summaries and images on the physical world. For example, if your car shows the car's speed and direction directly on the windshield, you're experiencing AR. Employers use AR for human resource management too. For example, Boeing uses AR to help trainees learn the 50 steps required to assemble an aircraft wing section.⁶⁵

LEARNING OBJECTIVE 1-3

Briefly describe six important components or pillars of human resource management today.

Today's New Human Resource Management

A Brief History of Personnel/Human Resource Management

"Personnel management" is not new.⁶⁶ Ancient armies and organized efforts always required attracting, selecting, training, and motivating workers. But personnel tasks like these were mostly just part of every manager's job, something that lasted in most countries until the late 1800s. At that time, labor

problems (having to hire and assimilate large numbers of workers, for instance) began arising in many of the post-Industrial Revolution's new factories. Soon employers were setting up “welfare offices” and “welfare secretaries” to manage activities like factory washrooms, and “safety bureaus” to oversee plant safety. By 1900, employers around the world set up the first “hiring offices,” training programs, and factory schools. Personnel management had begun. History and evolution of HRM in India is given as Annexure I to this Chapter at the end.

In these early firms, personnel managers took over hiring and firing from supervisors, ran the payroll departments, and administered benefits plans. As expertise in testing emerged, personnel departments played a greater role in employee selection and training.⁶⁷ New union laws added “Helping the employer deal with unions” to personnel’s tasks. By the 1970s globalization and nationalization in India made gaining a competitive edge through engaged employees—and therefore personnel management—increasingly important. Around that time, India saw emergence of the Human Resource Development (HRD) movement, that laid emphasis to capability building.

Today economic and demographic trends (recall the aging population in many western countries and young population in countries like India, for instance) make finding, hiring, and motivating employees more challenging, while at the same time more high-tech jobs means employers must excel at managing employees’ knowledge, skills, and expertise (human capital). Furthermore, as we’ve seen, technological trends including mobile and social media are changing how employers recruit, select, train, appraise, and motivate employees.⁶⁸ In a sense, a new human resource management is emerging, one built on six main components or pillars.

Distributed HR and the New Human Resource Management

First, thanks to technologies like social media and cloud computing, more human resource management tasks are being *redistributed* from a central HR department to the company’s employees and line managers.⁶⁹ Many Indian companies use popular collaborative tools like Yammer for employees to interact with each other. Tools like Skype (or one-to-one and group meetings), Google Docs, and Dropbox are used extensively, particularly by SMEs and freelancers. WhatsApp is popular among Indian project and sales teams, for communication and information sharing. Similarly, hiring managers in some companies bypass human resource management to find candidates directly via LinkedIn. At Google, when someone applies for a job, his or her information goes into a system that matches the recruit with current Google employees based on interests and experiences. In a process Google calls “crowdsourcing” Google employees then get a big say in who Google hires.

Some experts say that if current trends continue, many aspects of HR and talent management may become “fully embedded in how work gets done throughout an organization [distributed], thereby becoming an everyday part of doing business.”⁷⁰ So, somewhat ironically, we seem to be shifting in some respects back toward the time before the first personnel departments when line managers did more of the personnel tasks. As an example, Hilton Worldwide is placing more HR activities in the hands of employees, while redirecting the savings thus attained to building up the more strategic aspects

of what its human resource managers do.⁷¹ In the following chapters, we'll use Trends Shaping HR discussions like the accompanying one to present more examples.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Digital and Social Media Tools and the New Human Resource Management

Digital and social media tools are changing how people look for jobs, and how companies recruit, retain, pay, and train employees. In doing so, they've created, in a sense, a new human resource management.

For example, career sites such as Glassdoor, CareerBliss, CareerLeak, and JobBite let their members share insights into thousands of employers, including company commentaries, salary reports, and CEO approval ratings.⁷² According to one report, 48% of job seekers surveyed said they've used Glassdoor during their job search, including checking before applying for employment at a company.⁷³ Recognizing that, many companies from India also track their web-presence and ratings on regular basis. Among other things, this prompts sensible human resource managers to make sure their internal processes (such as promotion decisions, pay allocations, and performance appraisals) are fair, and that their recruitment processes are civil—for instance, by getting back to rejected job candidates.

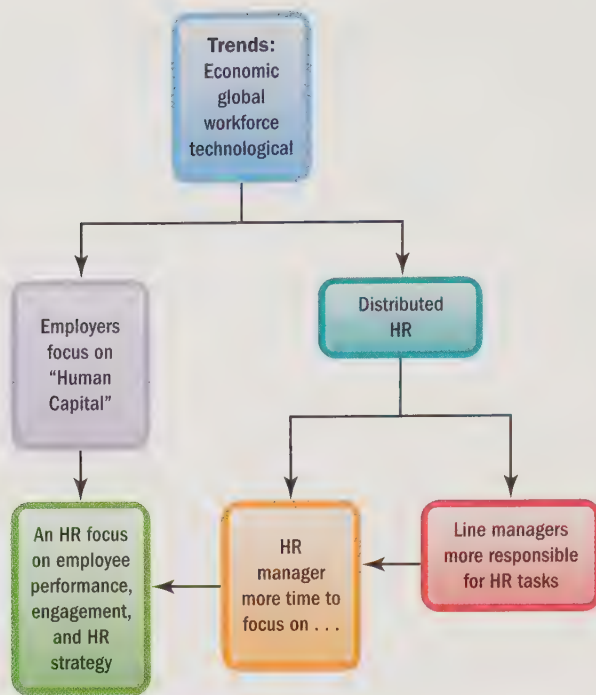
Recruitment is another familiar way social media revolutionized human resource management. For example, hiring managers use LinkedIn to find passive employment candidates (those not actively looking for jobs), and to check out active candidates. Another site, Gild, lets managers find skilled software engineers by searching the Web for open source code; they then evaluate the code's programmers by scanning technology forums to assess the programmers' reputations. ■

A Quick Overview

We can summarize a quick overview of our discussion to this point as follows:

- One big consequence of globalized competition, economic and demographic trends, and the shift to high-tech and service jobs is the growing need for employers to get the best from their “human capital,” in other words, from their workers' knowledge, education, training, skills, and expertise.
- This requires, among other things, using human resource methods to improve employee performance and engagement.
- Thanks to digital devices and social media, employers are shifting (distributing) more HR tasks from central human resource departments to employees and line managers.
- This gives many line managers more human resource management responsibilities.
- And this means that many human resource managers can refocus their efforts *from* day-to-day activities like interviewing candidates *to* broader efforts, such as formulating strategies for boosting employee performance and engagement. Figure 1-4 illustrates this.

FIGURE 1-4 What Trends Mean for Human Resource Management



■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Building L.L.Bean

Strategic human resource management means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

L.L.Bean illustrates how companies do this. The heart of L.L.Bean's strategy has always been offering great outdoor equipment with outstanding service and expert advice. As its company history said, "L.L.Bean, Inc., quickly established itself as a trusted source for reliable outdoor equipment and expert advice. The small company grew. Customers spread the word of L.L.Bean's quality and service."⁷⁴

To provide such service, L.L.Bean needs special people as employees, ones whose love of the outdoors helps them deal knowledgeably and supportively with the company's customers. To paraphrase its Web site, L.L.Bean is looking for special employees, "innovative professionals with a love for the outdoors, a commitment to service and a shared excitement for the future."⁷⁵

L.L.Bean's HR policies and practices attract and develop just such employees. For one thing, the company knows just who to recruit. It wants passionate, sociable, friendly, outdoors-oriented applicants and employees.⁷⁶ To attract and cultivate these sorts of employee competencies and behaviors, the company uses multiple interviews to screen out applicants who might not fit in.⁷⁷ And L.L.Bean offers an outdoors-oriented work environment and competitive pay, and benefits that include outdoor clubs, sporting equipment to borrow, and outdoor courses and tours.⁷⁸

To help encourage great employee service, L.L.Bean also provides a supportive environment. For example, when its Web sales for the first time exceeded phone sales several years ago, L.L.Bean closed four local call centers, but arranged for the 220 employees to work from their homes. And instead of sending jobs abroad, the company keeps its jobs close to the town where Leon Leonwood Bean started his company almost 100 years ago.⁷⁹ L.L.Bean's managers built the firm's strategy and success around courteous, expert service. They know that having the right employees is the key to its success, and that it takes the right blend of human resource practices to attract and support such employees.

strategic human resource management

Formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

Strategic Human Resource Management

A second pillar of HR today is that today's human resource management is more involved in longer-term, strategic "big picture" issues. We'll see in Chapter 3 (Strategy) that **strategic human resource management** means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims. We illustrate this throughout this book with Strategic Context features such as the accompanying one.

As in the Strategic Context feature, today's employers want their HR managers to put in place practices that will produce the employee behaviors that help the company achieve its strategic aims. We use a model opening in each chapter to illustrate this idea, but in brief the model follows this three-step sequence: Set the firm's strategic aims → Pinpoint the employee behaviors and skills we need to achieve these strategic aims → Decide what HR policies and practices will enable us to produce these necessary employee behaviors and skills.

Performance and Human Resource Management

Third, employers also expect human resource management to spearhead *employee performance-improvement* efforts.⁸⁰ Here HR can apply three levers. The first is the *HR department lever*. The HR manager ensures that the human resource management function is delivering services efficiently. For example, this might include outsourcing certain activities such as benefits management, and using technology to deliver its services more cost-effectively.

The second is the *employee costs lever*. For example, the human resource manager takes a prominent role in advising top management about the company's staffing levels, and in setting and controlling the firm's compensation, incentives, and benefits policies.

The third is the *strategic results lever*. Here the HR manager puts in place the policies and practices that produce the employee competencies and skills the company needs to achieve its strategic goals. That's what was done at L.L.Bean, for instance.

HR AND PERFORMANCE MEASUREMENT Improving performance requires measuring what you are doing. For example, when IBM's former chief HR officer needed \$100 million to reorganize its HR operations several years ago, he told top management, "I'm going to deliver talent to you that's skilled and on time and ready to be deployed. I will be able to measure the skills, tell you what skills we have, what [skills] we don't have [and] then show you how to fill the gaps or enhance our training."⁸¹

Human resource managers use performance measures (or "metrics") to validate claims like these. For example, the average number of HR employees per 100 total employees is 2.57.⁸² For example, median HR expenses as a percentage of companies' total operating costs average under 1%.⁸³ A good performance management system considers employee performance and rewards fairly, and is transparent. Technology offers features such as systematic approach and transparency, which enable fairness. For instance, ZingHR is a Mumbai-based human resource solution firm that has developed a performance management software to support appraisals. It has developed an e-performance management software with 360 Degree PMS, where performance reviews not only focus on the outcomes to rate the employees but also help the managers understand about the volatility

in the market environment as well as the current economic and technological conditions, and rate performance accordingly. The PMS software offers flexibility to the HR managers to design complex HR processes in a simple manner. It also helps the employees to understand how their performance is being evaluated, and gives clarity on performance expected from them.⁸⁴ We'll address this in Chapter 3.

HR AND EVIDENCE-BASED MANAGEMENT Basing decisions on such evidence is the heart of *evidence-based human resource management*. This is the use of data, facts, analytics, scientific rigor, critical evaluation, and critically evaluated research/case studies to support human resource management proposals, decisions, practices, and conclusions.⁸⁵ Put simply, evidence-based human resource management means using the best-available evidence in making decisions about the human resource management practices you are focusing on.⁸⁶ The evidence may come from *actual measurements* (such as, how did the trainees like this program?). It may come from *existing data* (such as, what happened to company profits after we installed this training program?). Or, it may come from published *research studies* (such as, what does the research literature conclude about the best way to ensure that trainees remember what they learn?).

HR AND ADDING VALUE The bottom line is that today's employers want their human resource managers to *add value* by boosting profits and performance. Professors Dave Ulrich and Wayne Brockbank coined the phrase "HR Value Proposition."⁸⁷ They say human resource management's aim is to add value. *Adding value* means helping the firm and its employees improve in a measurable way as a result of the human resource manager's actions. Particularly today, adding value does not just mean cutting costs. It also entails improving the company's processes, aligning HR's activities with the company's strategy, and fostering employee engagement.⁸⁸ We'll see in this book how human resource practices do this.⁸⁹ For example, we'll use, in each chapter, HR as a Profit Center discussions (as on pages 9–10), as well as special employee engagement, and human resource strategy discussions and cases to illustrate this.

Sustainability and Human Resource Management

Fourth, in a world where sea levels are rising, glaciers are crumbling, and people increasingly view financial inequity as offensive, more and more people say that businesses (and their HR teams) can't just measure "performance" in terms of maximizing profits. They argue that companies' efforts should be "*sustainable*," by which they mean judged not just on profits, but also on their environmental and social performance as well.⁹⁰ As one example, PepsiCo has a goal to deliver "Performance with Purpose"—in other words, to deliver financial performance while also achieving human sustainability, environmental sustainability, and talent sustainability. PepsiCo wants to achieve business and financial success while leaving a positive imprint on society (click www.pepsico.com, then click *Sustainability*, and then *Performance with Purpose*). As another example, the giant French materials company Saint-Gobain recently opened new offices in Pennsylvania. Its human resource management department took a lead in creating sustainable offices, for instance, in terms of indoor air purity monitors.⁹¹ In one survey, about

80% of large surveyed companies report their sustainability performance.⁹² SRK Exports from Surat India, a diamond cutting and polishing company opened its first green office and factory with LEED Gold certification in 2015.⁹³

employment engagement

The extent to which an organization's employees are psychologically involved in, connected to, and committed to getting their jobs done.

Employee Engagement and Human Resource Management

Fifth, **employee engagement** refers to being psychologically involved in, connected to, and committed to getting one's jobs done. Engaged employees “experience a high level of connectivity with their work tasks,” and therefore work hard to accomplish their task-related goals.⁹⁴ Employers expect HR to help achieve employee engagement today.

Employee engagement is vital to employers today because it drives performance. For example (as we will discuss in Chapter 3), based on one Gallup survey, business units with the highest levels of employee engagement have an 83% chance of performing above the company median; those with the lowest employee engagement have only a 17% chance.⁹⁵ A survey by consultants Watson Wyatt Worldwide concluded that companies with highly engaged employees have 26% higher revenue per employee.⁹⁶

The problem for employers is that only about 21–30% of today's employees nationally are engaged.⁹⁷ In one survey, about 30% were engaged, 50% were not engaged, and 20% were actively disengaged (antimanagement).⁹⁸

We will see in this book that managers improve employee engagement by taking concrete steps to do so. For example, a few years ago, Kia Motors (UK) turned its performance around, in part by boosting employee engagement.⁹⁹ As we will discuss more fully in Chapter 3, it did this with new HR programs. Similarly, Bank of Baroda focused on improving employee engagement to support the business transformation exercise. These included new *leadership development* programs, new *employee recognition* programs, improved *internal communications* programs, a new *employee development* program, and by modifying its *compensation and other policies*. We use special Employee Engagement Guide for Managers sections in most chapters to show how managers use human resource activities such as recruiting and selection to improve employee engagement.

Ethics and Human Resource Management

ethics

The principles of conduct governing an individual or a group; specifically, the standards you use to decide what your conduct should be.

Finally, **ethics** means the standards someone uses to decide what his or her conduct should be. Regrettably, news reports are filled with stories of otherwise competent managers who have run amok. For example, prosecutors filed criminal charges against several Iowa meatpacking plant human resource managers who allegedly violated employment law by hiring children younger than 16.¹⁰⁰ Behaviors like these risk torpedoing even otherwise competent managers and employers. We will see that many ethical issues—such as workplace safety—are HR-related, and that HR plays a big role in cultivating organizational ethics today.¹⁰¹

LEARNING OBJECTIVE 1-4

List at least four important human resource manager competencies.

The New Human Resource Manager

All this means that it's more complicated being a human resource manager today.¹⁰² Tasks like formulating strategies and making data-based decisions require new competencies and skills. HR managers can't just be good at traditional personnel tasks like hiring and training. Instead, they must “speak the

CFO's language" by defending human resource plans in measurable terms (such as return on investment).¹⁰³ To create strategic plans, the human resource manager must understand strategic planning, marketing, production, and finance. As companies merge and expand abroad, HR managers must formulate and implement large-scale organizational changes, drive employee engagement, and redesign organizational structures and work processes. None of this is easy.

When asked, "Why do you want to be an HR manager?" many people basically say, "Because I'm a people person." Being sociable is certainly important, but it takes much more.

What does it take to be a human resource manager today? The Society for Human Resource Management (SHRM) introduced a "competency model" (called the SHRM Body of Competency and Knowledge™); it itemizes the competencies, skills, and knowledge and expertise human resource managers need. Here are the *behaviors or competencies* (with definitions) SHRM says today's HR manager should exhibit

- **Leadership and Navigation** The ability to direct and contribute to initiatives and processes within the organization
- **Ethical Practice** The ability to integrate core values, integrity, and accountability throughout all organizational and business practices
- **Business Acumen** The ability to understand and apply information with which to contribute to the organization's strategic plan
- **Relationship Management** The ability to manage interactions to provide service and to support the organization
- **Consultation** The ability to provide guidance to organizational stakeholders
- **Critical Evaluation** The ability to interpret information with which to make business decisions and recommendations
- **Global and Cultural Effectiveness** The ability to value and consider the perspectives and backgrounds of all parties
- **Communication** The ability to effectively exchange information with stakeholders

SHRM also says human resource managers must have command of *the basic knowledge in the functional areas of HR*, such as talent acquisition. The basic knowledge of each function's principles and practices they need here include, according to SHRM, U.S.

- Functional Area #1: HR Strategic Planning
- Functional Area #2: Talent Acquisition
- Functional Area #3: Employee Engagement & Retention
- Functional Area #4: Learning & Development
- Functional Area #5: Total Rewards
- Functional Area #6: Structure of the HR Function
- Functional Area #7: Organizational Effectiveness & Development
- Functional Area #8: Workforce Management
- Functional Area #9: Employee & Labor Relations
- Functional Area #10: Technology & Data Management
- Functional Area #11: HR in the Global Context
- Functional Area #12: Diversity & Inclusion
- Functional Area #13: Risk Management
- Functional Area #14: Corporate Social Responsibility
- Functional Area #15: Employment Law & Regulations

HR Manager Certification

Many human resource managers use certification to demonstrate their mastery of contemporary human resource management knowledge and competencies.

The oldest in U.S. is administered by the HR Certification Institute (HRCI), an independent certifying organization for human resource professionals (see www.hrci.org). Through testing, HRCI awards several credentials, including Professional in Human Resources (PHR), and Senior Professional in Human Resources (SPHR).¹⁰⁴

HR and the Manager's Skills

The aim of this book is to help every manager develop the skills he or she needs to carry out the human resource management-related aspects of his or her job, such as recruiting, selecting, training, appraising, and incentivizing employees, and providing them with a safe and fulfilling work environment. (112) Special HR Tools for Line Managers and Small Business features provide small business. Know Your Employment Law features highlight the practical information all managers need to make better HR-related decisions that work. Employee Engagement Guide for Managers features show how managers improve employee engagement.

HR and the Manager's Human Resource Philosophy

Technical expertise is important, but at the end of the day, people's actions are always based in part on the basic assumptions they make, and this is especially true in regard to human resource management. The basic assumptions you make about people—Can they be trusted? Do they dislike work? Why do they act as they do? How should they be treated?—together comprise your philosophy of human resource management. And every personnel decision you make—the people you hire, the training you provide, your leadership style, and the like—reflects (for better or worse) this basic philosophy.

How do you go about developing such a philosophy? To some extent, it's preordained. There's no doubt that you will bring to your job an initial philosophy based on your experiences, education, values, assumptions, and background. But your philosophy doesn't have to be set in stone. It should evolve as you accumulate knowledge and experiences. For example, after a worker uprising in China at the Hon Hai-owned Foxconn plant that assembles Apple iPhones, the personnel philosophy at the plant softened in response to the workers' (and Apple's) discontent.¹⁰⁵ In any case, no manager should manage others without first understanding the personnel philosophy that is driving his or her actions.

One of the things molding your own philosophy is that of your organization's top management. While it may or may not be stated, it is usually communicated by the managers' actions and permeates every level and department in the organization.

For example, here is part of the personnel philosophy of the founder of the Polaroid Corp., stated many years ago:

To give everyone working for the company a personal opportunity within the company for full exercise of his talents—to express his opinions, to share in the progress of the company as far as his capacity permits, and to earn enough money so that the need for earning more will not always be the first thing on his mind. The opportunity, in short, to make his work here a fully rewarding and important part of his or her life.¹⁰⁶

Current “best companies to work for” lists include many organizations with similar philosophies. For example, the CEO of software giant SAS has said,

We’ve worked hard to create a corporate culture that is based on trust between our employees and the company . . . a culture that rewards innovation, encourages employees to try new things and yet doesn’t penalize them for taking chances, and a culture that cares about employees’ personal and professional growth.¹⁰⁷

Similarly, when Google founders Larry Page and Sergey Brin began building Google, they set out to make it a great place to work. Google doesn’t just offer abundant benefits and stock options.¹⁰⁸ Google’s team of social scientists run experiments, for instance, to determine successful middle managers’ skills.¹⁰⁹ The aim is to keep “Googlers” happy (and Google successful and growing). We’ll look closer at how managers maintain positive employee relations in Chapters 3 and 13.

LEARNING OBJECTIVE 1-5

Outline the plan of this book.

The Plan of This Book

The Basic Themes and Features

In this book, we’ll use four themes and features to highlight particularly important issues, and to provide continuity from chapter to chapter.

Practical Tools for Every Manager

First, human resource management is the *responsibility of every manager*—not just those in human resources. Throughout every page in this book, you’ll therefore find an emphasis on practical material that you as a manager will need to perform your day-to-day management responsibilities, even if you never spend one day as an HR manager. Special *HR Tools for Line Managers and Small Businesses* discussions provide small business owners/managers in particular with techniques to better manage their small businesses. *Know Your Employment Law* discussions highlight the practical information all managers need to make better HR-related decisions at work. *Employee Engagement Guide for Managers* discussions show how managers improve employee engagement.

Second, managers use human resource management techniques to *improve performance, productivity, and profitability*. To highlight this, you will find special discussions titled:

Improving Performance: HR Tools for Line Managers and Small Businesses. These discussions highlight actual tools and practices any manager can use to improve performance at work.

Improving Performance: HR as a Profit Center. We’ve seen that employers want human resource management practices that add value. To illustrate this throughout the book, most chapters contains an illustrative Improving Performance: HR as a Profit Center discussion. These show actual examples of how human resource management practices add measurable value—by reducing costs or boosting revenues.

Improving Performance: HR Practices Around the Globe. These features highlight how actual companies around the globe use effective HR practices to improve their teams’ and companies’ performance.

Improving Performance Through HRIS. These discussions highlight how managers use human resource technology to improve performance.

Diversity Counts. These features provide insights and guidelines for managing a diverse workforce.

Third, the book emphasizes how digital and high-tech trends are shaping human resource management. You'll therefore find *Trends* discussions such as *Trends Shaping HR: Digital and Social Media* in most chapters.

Fourth, particularly with today's "distributed HR," every line and staff manager should understand how the employer's human resource management policies and practices produce the employee skills and performance the company needs *to achieve its strategic aims*. Special chapter-opener scenarios and *Improving Performance: The Strategic Context* features illustrate this in most chapters. And we'll use the Hotel Paris continuing case starting in Chapter 3 to apply that idea.

Chapter Contents Overview

Following is a brief overview of the chapters and their content.

PART 1: INTRODUCTION

Chapter 1: Introduction to Human Resource Management. The manager's human resource management jobs; crucial global and competitive trends; how managers use technology and modern HR measurement systems to improve HR management.

Chapter 2: Employment Law in India and the U.S. What you should know about equal opportunity laws; how these laws affect activities such as interviewing, selecting employees, and evaluating performance; *Know Your Employment Law* features highlight important laws in each chapter.

Chapter 3: Human Resource Management Strategy and Analysis. What is strategic planning; strategic human resource management; building high-performance HR practices; tools for evidence-based HR; employee engagement at Kia Motors.

PART 2: RECRUITMENT, PLACEMENT, AND TALENT MANAGEMENT

Chapter 4: Job Analysis and the Talent Management Process. How to analyze a job; how to determine the human resource requirements of the job, as well as its specific duties; and what is talent management.

Chapter 5: Personnel Planning and Recruiting. Human resource planning; determining what sorts of people need to be hired; recruiting them.

Chapter 6: Employee Testing and Selection. Techniques you can use to ensure that you're hiring the right people.

Chapter 7: Interviewing Candidates. How to interview candidates effectively.

PART 3: TRAINING AND DEVELOPMENT

Chapter 8: Training and Developing Employees. Providing the training and development to ensure that your employees have the knowledge and skills needed to accomplish their tasks.

Chapter 9: Performance Management and Appraisal. Techniques you can use for appraising employee performance.

Chapter 10: Managing Careers and Retention. Causes of and solutions for employee turnover, and how to help employees manage their careers.

PART 4: COMPENSATION

Chapter 11: Establishing Strategic Pay Plans. How to develop equitable pay plans for your employees.

Chapter 12: Pay for Performance and Financial Incentives. Pay-for-performance plans such as financial incentives, merit pay, and incentives that help tie performance to pay.

Chapter 13: Benefits and Services. Providing benefits that make it clear the firm views its employees as long-term investments and is concerned with their welfare.

PART 5: ENRICHMENT TOPICS IN HUMAN RESOURCE MANAGEMENT

Chapter 14: Building Positive Employee Relations. Developing employee relations programs and employee involvement strategies; ensuring ethical and fair treatment through discipline and grievance processes.

Chapter 15: Labor Relations and Collective Bargaining. How to deal with unions, including the union organizing campaign; negotiating and agreeing upon a collective bargaining agreement between unions and management; and managing the agreement via the grievance process.

Chapter 16: Safety, Health, and Risk Management. How to make the workplace safe, including the causes of accidents; laws governing your responsibilities for employee safety and health; risk management methods.

Chapter 17: Managing Global Human Resources. Special topics in managing the HR side of multinational operations.

Chapter 18: Managing Human Resources in Small and Entrepreneurial Firms. Special topics for managing human resources in smaller firms.

The Topics Are Interrelated

In practice, do not think of each of this book's topics as being unrelated to the others. Each topic interacts with and affects the others, and all should align with the employer's strategic plan. For example, hiring people who don't have the potential to learn the job will doom their performance, regardless of how much training they get. Similarly, we will see throughout this book that each human resource management function, from job analysis to recruiting, selecting, training, and rewarding employees, should aim to produce the employee behaviors and competencies that the company needs to achieve its strategic goals.

Chapter Review

Chapter Section Summaries

- 1-1. All managers should be able to answer, **What is human resource management, and why is it important?** Doing so helps managers avoid problems like hiring the wrong person for the job. And more important, it can help ensure that managers get results through people. Line managers' human resource duties include placing the right person on the job, and orienting and training new employees.
- 1-2. **The trends shaping human resource management** are influencing what human resource managers do and how they do it. Globalization means more competition, and more competition means more pressure to lower costs and to make employees more productive and quality conscious. Technology is requiring more employees to be technologically well informed and pressuring employers to improve their human resource processes by applying new distributive technological tools. There is more emphasis on "knowledge work" and therefore on building "human capital," the knowledge, education, training, skills, and expertise of a firm's employees. Workforce and demographic changes mean that the workforce is becoming older and more diverse.
- 1-3. In terms of the **components or pillars of human resource management today**, employers expect their human resource management teams to focus more on big-picture issues, including instituting human resource policies and practices that support the companies' strategic objectives, and to foster high performance through engaged employees.
- 1-4. To do so, **the human resource managers need new competencies**. They should be able to apply evidence-based human resource management, which means the use of data, facts, analytics, scientific rigor, critical evaluation, and critically evaluated research/case studies to support human resource management proposals, decisions, practices, and conclusions.
- 1-5. In understanding the overall **plan of this book**, keep several important themes in mind: that human resource management is the responsibility of every manager, that the workforce is increasingly diverse, that employers and their human resource managers face the need to manage in challenging economic times, and that human resource managers must be able to defend their plans and contributions in measurable terms—to use evidence-based management—to show they've added value.

Discussion Questions

- 1-1. Explain what HR management is and how it relates to the management process.
- 1-2. Give examples of how HR management concepts and techniques can be of use to all managers.
- 1-3. Illustrate the HR management responsibilities of line and staff managers.
- 1-4. Compare the authority of line and staff managers. Give examples of each.

Individual and Group Activities

- 1-5. Working individually or in groups, develop outlines showing how trends like workforce diversity, technological innovation, globalization, and changes in the nature of work have affected the college or university you are attending now.
- 1-6. Working individually or in groups, contact the HR manager of a PSU or Private bank. Ask

the HR manager how he or she is working as a strategic partner to manage human resources, given the bank's strategic goals and objectives. Back in class, discuss the responses of the different HR managers.

- 1-7. Working individually or in groups, interview an HR manager. Based on that interview, write a short presentation regarding HR's role today in building competitive organizations.
- 1-8. Working individually or in groups, bring several business publications such as *Business Today*, *Human Capital* and *People Matters* to class, or access them in class via the Web. Based on their contents, compile a list titled "What HR Managers and Departments Do Today."
- 1-9. Based on your personal experiences, list 10 examples showing how you used (or could have used) human resource management techniques at work or school.
- 1-10. Laurie Siegel, former senior vice president of human resources for Tyco International, U.S. took over her job just after numerous charges forced the company's previous board of directors and top executives to leave the firm. Hired by new CEO Edward Breen, Siegel had to tackle numerous difficult problems starting the moment she assumed office. For example, she had to help hire a new management team. She had to do something about what the outside world viewed as a culture of questionable ethics at her company. And she had to do something about the company's top-management compensation plan, which many felt contributed to the allegations by some that some former company officers had used the company as a sort of private ATM.

Siegel came to Tyco after a very impressive career. For example, she had been head of executive compensation at Allied Signal, and was a graduate of the Harvard Business School. But, as strong as her background was, she obviously had her work cut out for her when she took the senior vice president of HR position at Tyco.

Working individually or in groups, conduct an Internet search and/or library research to answer the following questions: What human resource management-related steps did Siegel take to help get Tyco back on the right track? Do you think she took the appropriate steps? Why or why not? What, if anything, do you suggest she do now?

- 1-11. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or Appendix B; (2) identify the material in this chapter that relates to the Appendix A and/or Appendix B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.



Experiential Exercise

HR and "The Profit"

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to provide practice in identifying and applying the basic concepts of human resource management by illustrating how managers use these techniques in their day-to-day jobs.

Required Understanding: Be thoroughly familiar with the material in this chapter, and with at least one

or two episodes of CNBC's *The Profit* with Marcus Lemonis, www.tv.com/shows/the-profit/watch/. (Access a library of past episodes at URLs such as www.cnbc.com/live-tv/the-profit)

How to Set Up the Exercise/Instructions:

- Divide the class into teams of several students.
- Read this: As you may know by watching billionaire Marcus Lemonis as he works with actual small businesses in which he's taken an ownership share, human resource management

often plays an important role in what he and the business owners and managers need to do to be successful. For example, at Grafton Furniture, a lack of clarity about who does what (a lack of up-to-date job descriptions) leads to inadequate supervision of some ongoing orders and to lower profit margins. Questions also arise at Grafton about, for instance, the effectiveness of the training that some managers (including the owner's son) have received.

- Watch several of these shows (or reruns of the shows), and then meet with your team and answer the following questions:

1-12. What specific HR functions (recruiting, interviewing, training, and so on) can you identify Mr. Lemonis addressing on this show? Make sure to give specific examples based on the show.

1-13. What specific HR functions can you identify as being problematical in this company? Again, please give specific answers.

1-14. In terms of HR functions (such as recruiting, selection, interviewing, compensating, appraising, and so on) what exactly would you recommend doing to improve this company's performance?

1-15. Present your team's conclusions to the class.

Application Case

Jack Nelson's Problem¹¹⁰

Written and copyrighted by Gary Dessler, PhD.

As a new member of the board of directors for a local bank, Jack Nelson was being introduced to all the employees in the home office. When he was introduced to Ruth Johnson, he was curious about her work and asked her what the machine she was using did. Johnson replied that she really did not know what the machine was called or what it did. She explained that she had only been working there for 2 months. However, she did know precisely how to operate the machine. According to her supervisor, she was an excellent employee.

At one of the branch offices, the supervisor in charge spoke to Nelson confidentially, telling him that "something was wrong," but she didn't know what. For one thing, she explained, employee turnover was too high, and no sooner had one employee been put on the job than another one resigned. With customers to see and loans to be made, she continued, she had little time to work with the new employees as they came and went.

All branch supervisors hired their own employees without communication with the home office or other branches. When

an opening developed, the supervisor tried to find a suitable employee to replace the worker who had quit.

After touring the 22 branches and finding similar problems in many of them, Nelson wondered what the home office should do or what action he should take. The banking firm generally was regarded as being a well-run institution that had grown from 27 to 191 employees during the past 8 years. The more he thought about the matter, the more puzzled Nelson became. He couldn't quite put his finger on the problem, and he didn't know whether to report his findings to the president.

Questions

1-16. What do you think is causing some of the problems in the bank's home office and branches?

1-17. Do you think setting up an HR unit in the main office would help?

1-18. What specific functions should an HR unit carry out? What HR functions would then be carried out by supervisors and other line managers? What role should the Internet play in the new HR organization?

Continuing Case

Carter Cleaning Company

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Introduction

A main theme of this book is that human resource management activities like recruiting, selecting, training, and rewarding employees are not just the job of a central HR group but rather a job in which every manager must engage. Perhaps nowhere is this more apparent than in the typical small service business. Here

the owner/manager usually has no HR staff to rely on. However, the success of his or her enterprise (not to mention his or her family's peace of mind) often depends largely on the effectiveness through which workers are recruited, hired, trained, evaluated, and rewarded. Therefore, to help illustrate and emphasize the front-line manager's HR role, throughout this book we will use a continuing case based on an actual small business in the southeastern United States. Each chapter's segment of the case will illustrate how the case's main player—owner/manager Jennifer Carter—confronts and solves personnel problems each day

at work by applying the concepts and techniques of that particular chapter. Here is background information that you will need to answer questions that arise in subsequent chapters. (We also present a second, unrelated “application case” case incident in each chapter.)

Carter Cleaning Centers

Jennifer Carter graduated from State University in June 2011 and, after considering several job offers, decided to do what she always planned to do—go into business with her father, Jack Carter.

Jack Carter opened his first laundromat in 1991 and his second in 2001. The main attraction of these coin laundry businesses for him was that they were capital—rather than labor—intensive. Thus, once the investment in machinery was made, the stores could be run with just one unskilled attendant and none of the labor problems one normally expects from being in the retail service business.

The attractiveness of operating with virtually no skilled labor notwithstanding, Jack had decided by 2007 to expand the services in each of his stores to include the dry cleaning and pressing of clothes. He embarked, in other words, on a strategy of “related diversification” by adding new services that were related to and consistent with his existing coin laundry activities. He added these

for several reasons. He wanted to better utilize the unused space in the rather large stores he currently had under lease. Furthermore, he was, as he put it, “tired of sending out the dry cleaning and pressing work that came in from our coin laundry clients to a dry cleaner 5 miles away, who then took most of what should have been our profits.” To reflect the new, expanded line of services, he renamed each of his two stores Carter Cleaning Centers and was sufficiently satisfied with their performance to open four more of the same type of stores over the next 5 years. Each store had its own on-site manager and, on average, about seven employees and annual revenues of about \$550,000. It was this six-store chain that Jennifer joined after graduating.

Her understanding with her father was that she would serve as a troubleshooter/consultant to the elder Carter with the aim of both learning the business and bringing to it modern management concepts and techniques for solving the business’s problems and facilitating its growth.

Questions

- 1-19. Make a list of five specific HR problems you think Carter Cleaning will have to grapple with.
- 1-20. What would you do first if you were Jennifer?

Key Terms

organization, 3
manager, 3
managing, 3
management process, 3

human resource management (HRM), 3
authority, 6
line authority, 6

staff authority, 6
line manager, 6
staff manager, 6

strategic human resource management, 20
employment engagement, 23
ethics, 23

Annexure A

Evolution and Challenges of HRM in India

The HRM function in Indian organizations continues to face newer challenges. While the population has crossed one billion, and the country is economically progressing, organizations continue to face serious challenges in people management. Unlike many western countries, India can boast of a younger population who are ready to be part of the workforce. Introduction of automation, AI and technological tools, the impact of social media, new forms of work like gig work and changes in the regulatory and governance framework are influencing how HRM is implemented.

Few years before, the high economic growth and the consequent demand for employable people to help achieve the growth make the HR function sit up and think of alternatives. While the importance of HRM is undisputedly recognized, the ability of HR function to cope up with the demands of a high performing organization has been questioned. The 'High-Performance Workforce Study 2007' conducted by consulting firm Accenture, notes that Indian organizations have traditionally ignored considering people as a source of distinct competitive advantage and are finding people management as the second important challenge faced by Indian CEOs.¹¹¹ Another study among Indian CEOs identified the following people management challenges before them, which reads like the list for any western country CEO.¹¹²

1. Creating a high-performance culture
2. Retaining talent
3. Recruiting
4. Moving from patriarchic, hierarchical management to a more team-based, informal organizational culture
5. Linking training with performance
6. Compensating knowledge workers
7. Building interpersonal relationships/managing conflict
8. Going global

In another study of Indian CEOs conducted in 2015 about their expectations from CHROs (Chief Human Resource Officers), CEOs expected their CHROs to

contribute to the organization's future, become a part in business progression and strategically partner with the CEO in executing the plans.¹¹³ Both studies indicate the CEOs concerns on people issues, that point to the criticality placed by top leadership on HRM in organizations. However, as both reports identify, the ability of a large section of HR functionaries to be the strategic business partner is doubted by CEOs. At the same time, the failure of organizational leadership to encourage HR to move to front lines from the traditional roles as a backroom support function, fire-fighting and handling crisis and the inability of HR function to align with business has been cited as reasons for the situation.

As Indian organizations realize the need for professional HRM, there is a growing demand for trained HR professionals. Business Schools and other institutions, including law universities have been offering specialized courses to train HR professionals. In a few organizations, line managers are shifted to handle HR responsibilities and career HR professionals have also been successfully shifting to other roles like marketing and operations, with few of them assuming CEO roles. A study conducted in the Indian context which examined the relationship between the HRM role performed by line managers in top Indian companies and the effectiveness of HRM showed mixed support.¹¹⁴ Another study, which collected information from 210 line managers, indicated that there are points of conflict between HR and line managers in India. Promotion decisions, salary, employee transfers, managing attrition and handling employee grievances are highest in the list of conflict areas between the HR function and line managers.¹¹⁵ Realizing the importance of building HR capabilities among line managers and potential leaders, organizations build relevant capabilities by organizing structured training programs (HR for non-HR), stressing importance of people management, HRM activities for early career/first time managers or providing relevant exposures to HRM activities.

Evolution of HRM in India

References about personnel management systems and practices can be found in the ancient Indian text *Arthashastra*, which included the job description of a supervisor and performance-linked pay for goldsmiths. Traditional India was famous for craftsmanship and the society itself was organized according to occupations. The high in quality and unique Indian goods, made by traditional craftsmen were shipped to Europe and other continents, as early as the 17th century. Even before that, India had trade relations with the Arab countries and South East Asia. Employer-employee relationship during that era might have been guided by master-servant relationship.

Formal industrial organizations emerged in India only after 1850. Merchants, particularly from Europe developed trade and established factories in India. Cotton and Jute mills were the initial industries followed by industries like steel, leather, coal and others. The British rulers institutionalized the systems for running the government, which included formal personnel management systems for recruitment and postings of government servants.

In the industrial sector, conditions of labor and work during the early years can best be described as poor. Enquiry commissions set up by the government, and committees studied the situation of workers and their recommendations led to the formation

of labor and social security legislations. The Royal Commission on Labor (1929–1931) set up to examine the situation recommended the appointment of labor officers and other changes, including emphasizing the need to collect data for use in policymaking and decisions. The changes suggested, led to bringing in a degree of standardization and that became the early moves to introduce personnel management in Indian organizations. Formation of trade unions, with close link with national leaders like Mahatma Gandhi (the Textile Labor Association in Ahmedabad founded in 1920) also influenced the way industrial workers were managed. Mahatma Gandhi's "Ahmedabad Experiment" became the early foundation for India's post-independence industrial relations regime. He was able to institutionalize in the context of Ahmedabad's booming textile industry, an industrial dispute resolution framework of class conciliation. The framework rejected any form of militancy and direct action from workers. Employers were expected to act as trustees, which resulted in cooperation between labor and capital. If class conflicts happened, legal arbitration was favoured instead of industrial action.¹¹⁶

At the same time, there were progressive employers who on their own cared about the well being of its employees. Tata Steel, Jamshedpur had introduced series of welfare measures for workers, much before it became mandatory by law. (See Table 1).

TABLE 1 Labor Welfare Measures in Tata Steel

Welfare Measures	Tisco Intro.	Enforced By Law	Legal Measures
Eight hour Working Day	1912	1948	Factories Act
Free Medical Aid	1915	1948	Employee's State Insurance Act
Establishment of Welfare Department	1917	1948	Factories Act
Schooling facilities for children	1917		
Formation of the Works Committee for handling complaints, service conditions and grievances	1919	1947	Industrial Dispute's Act
Leave with pay	1920	1948	Factories Act
Workers Provident Fund Scheme	1920	1952	Employee's Provident Fund Act
Workmen's Accident Compensation Scheme	1920	1924	Workmen's Compensation Act
Technical Institute for Training of Apprentices, Craftsmen & Engineering graduates	1921	1961	Apprentice's Act

Maternity Benefit	1928	1946	Bihar Maternity Benefit Act
Profit-sharing Bonus	1934	1965	Bonus Act
Retiring Gratuity	1937	1972	Payment of Gratuity Act
Ex-gratia Payment for road accident while coming to or returning from duty	1979		
Social Audit	1980		First in India
Pension Scheme	1989		
Social Responsibility as a Key Business Process	1988		

Source: Mirza S Saiyadian, "Modernisation of Mind at Tata Steel" Indian Journal of Industrial Relations, 2001, p.375.

After India won independence in 1947, considerable improvements happened in the personnel management approach of organizations. The post-independence period encouraged mixed economy as the Indian growth model. Industrial organizations were broadly classified as public sector (including the administrative arm of government) and the private sector. Public sector organizations were the largest employers and received huge investments. The Constitution of India had the objective of achieving a socialistic society and various constitutional provisions supported giving protection to the working class. Numerous legislations were introduced to protect workers, and specific officials were appointed to take care of workers' interests, notably the office of the Welfare Officer in large factories and plantations.

Along with industrialization, the trade union movement also grew in India. The rapid growth of trade unions also catalyzed the development of personnel systems in the organizations that employed them. Workers became more aware of their rights and it was increasingly becoming difficult to exploit them. Thus, in the 1970's & '80s, typical personnel function in an organization included (a) Personnel & Administration (b) Industrial Relations and (c) Labor welfare¹¹⁷. The prescribed and assumed role was "crisis-driven" or "issue-driven". High level of union activism, protection and employee behaviors like absenteeism also led to situations of overstaffing and the decision frameworks took a legalistic turn, with a focus to be on the right side of law.

The same period also saw the rise of managerial unionism, mainly in the public sector enterprises

where *supervisors and managers* without formal union rights joined to form associations which acted as pressure groups.¹¹⁸ Managerial unions were able to exert influence in the public sector and that called for attention to be given to managing the non-worker staff also. Managerial unions gained prominence in sectors like public sector banking and insurance, and at a point was accused of greatly influencing decision-making.

Though not widespread, the industry also was open to adopting tools and techniques that could help improve efficiency and productivity. In 1961, with full co-operation from trade unions the Indian Aluminum Company Ltd. conducted a plant-wide work-study at its Alupuram, Kerala plant which led to defining work output, staffing patterns and productivity linked incentive scheme.¹¹⁹ The establishment of management training institutes and business schools like ASCI Hyderabad, XLRI and IIMs helped industry to imbibe modern management principles and thoughts.

It could be very well summarized that up to the mid' 80s, Human Resources Management function in Indian organizations grew through various phases, under the influence of the following factors: (i) Philanthropic viewpoint about doing good to workers (ii) Legislations (iii) Government policies (iv) Trade Unions (v) Influenced by emerging trends/concepts in management and (vi) Changes in the economy. By then most organizations, business as well as non-business had established separate departments to handle the personnel function, with senior-level managers heading it.

Shift to Human Resource Development Orientation

Professors Udai Pareek and T.V. Rao were among the pioneers who not only introduced the human resource development (HRD) concept in India

but also assisted many organizations in designing development-oriented HR systems. They have discussed the paradigm shift from traditional personnel function to Human Resources system, as summarized in Table 2.¹²⁰

TABLE 2 Comparison between Personnel and HR systems

Personnel Function	Human Resources System
Independent	Sub-system of larger system
Several Functions	Organic Whole
Coping Role	Proactive role
Responsible for the personnel department	Shared responsibility with line managers
Achieve efficiency	Shared values and reduce human wastage
Maintenance function	Developmental
Motivation by salary	Motivation by challenges

Source: Adapted from Udai Pareek & T.V. Rao, *Designing and Managing Human Resource Systems*, (Oxford & IBH 1992), p.4

The 1980s saw such large-scale introduction of the developmental concept in Indian organizations. It was by then recognized that systematic attention to human resources was the only way to increase organizational effectiveness.¹²¹ This awareness created a stage for direct involvement of top managers and line managers in the HRM process.

However, there were questions about the real impact created by HRD. A study of HR professionals concluded that the HR (personnel) function was considered to be in the lower order of hierarchy in terms of importance, i.e., not at par with other functions.¹²² Another survey-based study conducted in the latter half of the 1980s observed that the major hurdle for the HR professionals in their effective performance is the lack of top management support and lack of adequate and meaningful research inputs to the profession.¹²³ At the same time, the survey noticed the change in role and status of the HR profession within organizations. Another study conducted in 1984 found that 30% of the 54 companies studied had separate HRD departments and other 38% had a separate HRD function as a part of the personnel department.¹²⁴

Towards Total Human Resource Management

Opening up of the Indian economy after the dream budget in 1992, saw Indian firms facing direct competition from MNCs entering India. The government started discussions about strategic

disinvestments of PSUs and introducing competition in sectors like banking and insurance as well as allowing foreign direct investments in many sectors. While the trade unions resisted the move, they found that their support base was diminishing. As part of the structural reforms, the government resorted to reorganization, privatization and even sale of Public Sector Units, and established a social security system for displaced workers through the National Renewal Fund (NRF) in February 1992, which was eventually wound up.¹²⁵ While the objectives of NRF included retraining/skill development, employment opportunity creation and job loss compensation for affected workers, review of the performance of NRF painted a dismal picture because organizations reportedly did not focus on skill development or job creation.¹²⁶ Liberalization also prompted Indian firms to consider Voluntary Retirement Schemes (VRS) to rationalize the workforce, since the existing legal provisions (Industrial Disputes Act, 1947) made workforce shedding difficult. A study about post-liberalization VRS schemes indicated that Indian organizations have not really benefited from introducing VRS.¹²⁷

At the same time, the opening up of economy created a demand for talent in the emerging sectors and the traditional organizations (both in public and private sectors) became talent sources. Workforce attrition became an important topic of discussion in Indian HR literature. The highly competitive

higher education system comprising of a network of IITs, RECs, IIMs, state government and private institutions had already created a focused pool of professionals for the new wave to ride on. At the same time, a section of managerial employees viewed the opening up of the economy as an opportunity to experiment with new experiences and also to improve their earnings.

Another significant event that happened was the development of the Information Technology sector, riding on the Y2K wave. Indian organizations like Infosys, Wipro, TCS and Patni Computers positioned themselves as cost-effective and reliable suppliers of human resources to international companies with legacy systems so that they can tide over the crisis. Their strength was the ability to mobilize a vast pool of technically trained people and deploy at client location, with developmental support from India. Massive staffing requirements saw recruitment evolving as a very specialized function, separate from, but closely interlinked with the other HRM functions. As demand exceeded the supply of technical talent, compensation levels also rose right at the entry point. India witnessed the arrival of the “knowledge worker”, well-skilled, individualistic and ambitious about career. Attrition, till then a restricted phenomenon become commonplace and the same placed the next set of demands on the HR function.

The demonstrated success of Y2K allowed Indian companies to get sustained business from abroad. This entailed continuing with the massive sourcing exercises and also making sure that internally organizations remained stable. It was also necessary that employees distributed across geographic locations are connected with the organization. Information technology-supported solution, particularly ERP based Human Resource Information Systems like SAPHR, People Soft HR, Oracle or Ramco became handy. Innovative HR practices adopted by the IT industry, including the much-discussed Dating Allowance of NIIT, ESOPs, etc., workplaces resembling college campus more than the traditional factory floor became the new face of HRM. At least in the more evolved sectors, increased emphasis was given to work-life balance practices (including flexible working hours, work from home options, employee support services, etc.) and initiatives towards health and wellness at the workplace. Soon, similar practices were adopted by traditional manufacturing and service firms, who

realized that the new, younger Indian workforce demanded better and different treatment.

Post-2000, competitive pressures and budget cuts were forcing many global organizations, including governments to cut operating costs. India was gaining recognition as a cost-effective location for outsourcing work, particularly those that involved the application of information technology. China had already gained similar status for manufacturing. This gave rise to the ITES (Information technology-enabled services)/BPO (Business Process Outsourcing) firms, where global organizations could transfer their internal processes to be executed in India. The advantages India had was its English speaking, university-educated population, and relative lesser operating cost. While the IT industry concentrated on the technically educated talent, the ITES focused on a large number of non-technical students from Indian universities. However, this led to massive displacement of jobs abroad which led to opposition from international trade unions and political parties so much that it became highly discussed points during elections in the U.S. and Europe. The growth also created new jobs and career opportunities in large numbers mostly for providing support services, like transport, food, security, staff services, etc., and saw the entry of firms, including MNCs in the sector leading to formalization of such sectors that remained traditionally in the informal sector.

In a globalized world, Indian firms could not remain immune for long from the effects of global business cycles. Many sectors faced the need for hiring talent in huge numbers to meet business requirements and also discharging employees when the demand fell. In the case of workers and unionized employees in the formal sector, the existing legislation framework placed restrictions in introducing required flexibility at workplaces. Many firms resorted to employing contractual and casual labor in large numbers, and in the process reducing the scope for creating better quality jobs. The move on some occasions went out of control, leading to labor unrest. Meanwhile, there were also instances where some employers in the impacted sectors like diamond cutting and polishing retained the trained and skilled employees even during the downturn while attempting other means of cost control. Such firms could capitalize on the opportunities given by the upturn that followed.¹²⁸

At the same time, at least in some sectors like ITES and retail which recruited in large number many years before, many employees are facing an end of road careers because of competency and qualification gaps. News about job losses in the IT/ITES sector started appearing more frequently. Introduction of automation tools and artificial intelligence is expected to reduce job opportunities in traditional areas. The IT/ITES firms adopted re-skilling and skill up-gradation to meet the emerging needs and realigned the L&D as well as incentive framework to learning new skills or specializing deeply in emerging technologies. This move was expected to help firms to be competitive globally. Similar forces have also impacted the manufacturing sector in the form of process automation and robotic applications. Studies have also indicated the existence of high levels of gender pay gap in India,¹²⁹ and challenges in integrating more persons with disabilities and of different orientations in the workplaces. The India Gender Pay Gap study 2018 established that the gap still continues to exist. It was found that the gender pay gap increases with higher education and skill levels, tenure and company's growing size, while at the bottom level, the gap was narrow. At the same time, positive HRM initiatives could be seen among many Indian employers in terms of attracting more women to the workplace, and employment to members of LGBT community.¹³⁰ To cope with the new requirements of organizations and employees, more Indian organizations are adopting flexible work practices (work from home/co-working arrangements) and employment contracts (freelances/part-timers, etc.)

The Age of Digital HR

With the growing complexity of organizational processes and the increasing size as well as the spread of organizations, it has become a challenge for the HR functionaries to handle all HRM activities including recruitment, training and development, performance management, payroll management, etc., Already publically available websites like www.paycheck.in or Glassdoor allows employees and organizations to reach out on matters related compensation, working conditions, etc., Advancements in technology and modern job roles, efficiency demands and the practice of using data for decisions have prompted the HR functions going digital. Advanced technologies such as machine learning, geo-fencing and tagging, artificial intelligence and robotics are being used to

make the management of the HR function simple, as well as efficient, both for organizational managers and the employees.

Responding to social media-savvy employees, many organizations have started to use social media tools for improving HRM in the organization. Most social media applications are found in the areas of Hiring, Employee Engagement, Communication and Employee Learning.¹³¹ Social media analytics is also being used to understand the workforce trends and craft appropriate HR strategies.

Make in India and HR Challenges

Election of a new government in 2014, had led to revitalizing the sentiments about economic environment and revival of the manufacturing sector as an agenda through the Make in India campaign. Through this, the government wanted to promote India as the global manufacturing destination and invite global investment. To achieve the same, the government planned to optimally utilize the young population of India by investing in skill development. India was also positioning to become skill supplier to rest of the world. The previous government had already initiated investments in skill development by establishing the National Skill Development Corporation (NSDC), with industry and private participation. The current government, for the first time created an independent ministry for skill development and entrepreneurship, with the mandate to consolidate the efforts in skill development. The national target is to skill 500 million by 2022.

Another initiative by the government was to reform the existing labor legislation and administration framework, which was one among the long pending demands from the industry. The challenge is to ensure that labor reforms are not restricted to allowing the freedom to hire and fire alone but facilitate the Indian industry to become globally competitive. At the same time, the welfare of workers also had to be taken care of. Some of the major reforms introduced during 2014–17 are (a) Allotment of Labor Identification numbers to 6 lakh firms and facilitating e-filing of compliance. (b) Reforming the labor inspection process, to include random inspection and transparency. (c) Promoting apprentice training (d) Allowing portability of Provident Fund. Scheme through Universal Identification number (UID). (d) Enhancing Maternity benefits to 26 weeks

paid leave. (e) Enhancing the salary limit for Bonus, Social Security, etc., 2018 witnessed further developments towards introduction of the four labor codes in line with recommendations of the Second National Commission on Labor. Few reforms were introduction of the Shram Suvidha (<https://shramsuvudha.gov.in/home>) the unified portal for labor compliance, increasing Gratuity limit from ₹10 lakhs to 20 lakhs, an introduction of new category of Fixed Term Employment Workman – considered as a step to increase labor flexibility. Steps to facilitate employment generation through national career service project and career service centers continued.¹³²

The Union Budget of 2017 had reiterated governments commitment to “a conducive labor environment wherein labor rights are protected and harmonious labor relations lead to higher productivity”, declared the government’s intention to reform the labor legislation framework, by proposing to divide the existing legislation into four codes on (i) wages; (ii) industrial relations; (iii) social security and welfare; and (iv) Occupational Health, safety and working conditions.¹³³ With the central government actively pushing reforms, few state governments have also eased some of the restrictions, like employment of women in night shifts (Maharashtra and Karnataka, for example), while placing controls for safety and security.¹³⁴ The Budget of 2019 continued emphasis on labor reforms focused on streamlining and simplifying the legislations, focusing on the codes. By mid-2019, the legalization of the four labor codes had progressed to the stage of introducing the Occupational Health and Safety Code, Social Security Code and Code on Wages in the parliament. These reforms were aimed at enhancing the ease of doing business in India, which included single registration, digitization and single return for labor compliance.¹³⁵

Though many of the reform moves and proposals have won the support of the Industry, trade unions remain skeptical about the changes. Trade Unions cite that according to the Annual Survey of Industries 2011–12, worker wages or emoluments in factories are approximately 4.5% of input costs, and hence the point that labor rigidity is the cause for Indian industry being uncompetitive is an unsubstantiated claim.¹³⁶ National strikes and protests were organized by a joint forum of TUs against the government’s reform initiatives, which in their view is anti-worker. Few experts also argue

that while introducing reforms in labor legislation and administration which should encourage speedy resolution of disputes, care should be taken not to sacrifice the basic tenants of workplace democracy.¹³⁷

2016 became known for a bold economic initiative, by way of demonetizing of high-value currencies and substituting it with new denominations. Though this led to hardship and disruptions, particularly in sectors like the SME/Construction sectors which employed large numbers of daily wage workers who were paid in cash, the positives included increased penetration of digitization and move towards formalization of this workforce. This also led to a fall in employment (rise in unemployment levels) across India. Following that, the Government of India had in its Union budgets of 2017, 18 and 19 focused on job creation and creation of skilled workforce in the economy. To take the nation to the future and encourage entrepreneurship/self-employment, initiatives like Start Up India and Digital India were introduced.

Government of India’s ambitious program of skilling large number of Indians was addressing a challenge to HRM. While India had an established system of training workforce for Industry requirements, the effectiveness and quality of such training was questioned. Large numbers of technically trained personnel were found unemployable, according to many studies and surveys.¹³⁸ A CII supported survey in 2013 placed the share of unemployables among Indian graduates at 34%,¹³⁹ which improved to 40% in 2016.¹⁴⁰ While another survey indicated that only 7% of Indian engineering graduates are employable.¹⁴¹ The study also points out that aspirations and salary expectations of the new workforce are rising, while employability has not improved. Such a situation of mismatch places the HR function in a difficult situation.

The government expects Industry to collaborate in the exercise of skilling India and expect firms to use the opportunity to hire necessary talent. Studies have shown that some of the limitations with existing employability-oriented system, are ineffective and outdated curriculum,¹⁴² poor training delivery and trainers; and lack of accreditation and standardization. While the government is working to put in place National Accreditation Standards and improve the quality of vocational training and higher education, Indian organizations have also adopted different approaches, including setting up

captive skill development institutions, linking and sharing resources with educational institutions, helping institutions improve standards through better institute-academia interactions, etc., to ensure that they have access to skilled workforce.

In addition to technical skill up-gradation, Supervisory Skill improvement, Management Capability building, and Leadership development are also challenges before Indian organizations. In response to the requirements, Learning and Development function (earlier HRD or training function) has assumed significance in organizations. The trend is clearly visible from the number of firms partnering with institutions like IIMA, for customized programs. A survey conducted in 2016 indicated that the L&D function is currently viewed as 'Growth Partner, with a mandate to move beyond traditional performance improvement and equip the workforce to face future skills requirements.¹⁴³ Indian firms are also embracing digital technology, including Interactive Online Learning Methodology (IOLM), game-based learning, Mobile Learning (M-learning) to ensure that learning becomes accessible to all.

At the same time, developments in the Indian economy and the global economy affects Indian organizations also. The IT or outsourcing industry, a leading employer and home to progressive HRM practices faces challenges from competition, cost escalation and restrictions in major markets like the U.S. and Europe. Statistics point to the economy experiencing jobless growth, which may not be good news for India's young workforce. Weak industrial growth, low productivity, widespread drought that impacted agriculture sector, cost rationalization, automation and the impact of general global slowdown have been cited as reasons.¹⁴⁴ Recently, news about layoffs or job losses in the IT sector and expected slowdown in job creation has sent shock waves. In-addition, automation and introduction of AI-based tools have reduced demand for employees, particularly those with obsolete skills. Though IT industry leaders have termed the job losses are

routine and performance-linked, it has also seen government intervention in the matter, and the call for unionization in the Indian IT sector has also become stronger.¹⁴⁵

It's a fact that many Indian firms have joined the league of global organizations, where HRM has evolved to a stage where it can rightfully claim a position in the decision-making hierarchy of organizations. In such firms, HR professionals and line managers are aware of the importance of HRM in gaining a competitive advantage. Traditional firms like RPG, Bajaj Auto, etc., and Indian origin MNCs like Tata's, and Aditya Birla Group have been focusing on developing leadership talent from within and have started investing in employees from the pipeline building perspective, rather than short term focus.

At the same time, it should be recognized that there are Indian firms where HRM is still at the primitive state, as also the large section of unorganized workforce in India, who still await the receive their share of the fruits of economic development. HRM practices in the SME sector firms have still to evolve on professional line, and many firms continue to function with traditional mindset of 'employees as an extended family member' and HRM practices shaped by faith and/or community values.¹⁴⁶ Though India is committed to providing decent work conditions, it still remains a dream for many. The legal protection enjoying Indian workforce and the firms that employ progressive HRM practices cover only 7 to 8% of the total workforce, while a large segment remains within the unorganized sector. Further debates about extension of reservation in jobs for the economically and socially weaker sections of the society and extension of labor law protection to the unorganized sector workforce are yet to be concluded. In future, Indian HRMs emerging challenge will be to move beyond confines of formal workplaces to become more inclusive in their approach, so that the large population base can become the drivers of economic growth.

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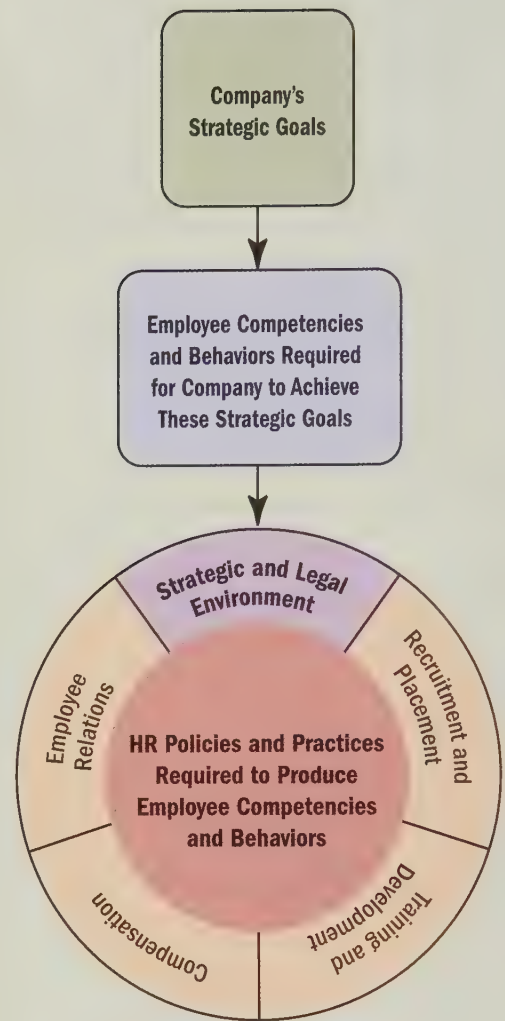
Employment Laws in India and the U.S.

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 2-1** **List** the basic features of various labor legislations.
- 2-2** **List** the basic features of employment laws, and explain with examples how to deal with labor law issues.
- 2-3** **List** the steps in the enforcement process.
- 2-4** **Give examples** of attitudes that undermine diversity efforts, and explain how you would create a diversity management program.

A university recently fired its senior employee after years of good evaluations. The firing happened about a year after his new boss gave him his first poor evaluation while peppering him with questions like "when are you going to retire?" The dismissed employee soon sued for discrimination. In this chapter, we will see how to avoid such problems.



WHERE ARE WE NOW . . .

Every HR action you take as a manager, from interviewing applicants to training, appraising, and rewarding them, has equal employment implications. Therefore, the purpose of this chapter is to provide you with the knowledge to deal more effectively with equal employment questions on the job. The main topics we cover are **Recent Developments Related to Labor Reforms in India, Laws Related to Industrial Relationships, Laws Related to Wages, Working Hours and Conditions of Service and Employment, Equality and Empowerment of Women, and Social Security.**



LEARNING OBJECTIVE 2-1

List the basic features of various labor legislations.

Labor Legislations In India

Legislations (or laws) related to workforce management, employment, trade unions and covering all aspects of employment such as paying equal wages, providing equal opportunity to all irrespective of gender, caste, place of living, etc., providing adequate working conditions are termed as Labor laws or employment laws, and they fall within the broad category of Industrial Laws. Indian Labor laws as practiced today are as old as under the British rule and they have not been amended significantly for many years in line with the changing and growing workforce. However, of late, there is a move to consolidate and modernize Indian labor laws to be suited to the ease of doing business and improving competitiveness.

Historically, most of the labor laws enacted earlier are employer centric and not employee-friendly. Good labor laws are which protect the rights of workers and employers equally and help build a strong and fair society, such labor laws are considered an indicator of any modern nation. Labor laws or employment legislations came into existence due to the demands of employees for better working conditions, recognition of their rights to form collectives (Trade Unions) and at the same time meet the demand from employers to ensure that excessive exertion of organized power of workers is contained and they have the flexibility to run the enterprise profitably and keep operating costs low.

Labor law in India has been influenced by British law and political economy. It's said that since getting Indian workers to work in British establishments was difficult, laws for hiring and keeping them was made. Primarily, the aim was to protect the interest of British businesses. The British rule had primarily enacted multiple legislations, to protect their business interests and they were based on considerations of modern political and social thinking in the country. The Trade Disputes Act, 1929 was one of the earliest laws enacted affecting employment and employment relations in India. After India gained independence in 1947, many of the legislations were amended and new ones were introduced to meet the new requirements and political reality. The Constitution of India, which is the source for all legislations had set the basic framework for Indian labor laws. (Constitutional provisions related to labor are discussed in later sections of this chapter.)

During the 90s', India witnessed liberalization which was a major turning point politically, economically and legally, as India had to then carve out the laws matching international standards. The post-liberalization economic growth of India and the resultant increase in efforts to attract international investments into the country has invited attention to the limitations and possibilities existing labor legislation framework in India. The general perception is that Indian labor laws are inflexible and out of tune with the requirements of economic growth. It is argued, particularly by employers, that if the rigidities of labor legislations are taken away, India can experience higher economic growth. As one of the managers of the Tata Group said, "Indian labor laws were intended to be friendly to employers, but they have ended up becoming anti-employment."¹

The other side of the argument, proposed by labor collectives, is that relaxation in labor laws will increase labor insecurity. Also, it will be subject to the whims and fancies of employers. Because of these differences, labor law

reforms continue to be one of the contentious reform-related issues before the country. Today, according to a report, generation of employment and policies to make work decent is a major challenge in India.² Though there have been efforts from the government of India to reform labor legislations, critics point out that it can, at best, be termed as stuck in the middle.³ Currently, the efforts to reform labor laws has gained momentum. We will discuss this later in the chapter.

Recent Amendments in Various Laws in India

With regards to labor law reforms in India, there have been constant discussions about overall reforms. The economic reforms introduced during the early 1990s accelerated the demand for labor reforms which were in tune with the market requirements. The second national labor commission (SNLC) was set up in October 1999. The mandate and relevance of the commission itself was questioned, since many earlier reform reports were left untouched by the Indian government.⁴ However, the year 2014 can be considered a landmark year because of the string of reforms undertaken to amend different legislations and also improving processes. The process of reforms since then has continued, both by central government and state government but the approach is not without its share of criticism from labor unions and sections of civil society.

Since 2014, various laws, rules and schemes affecting employment, employer and employee are amended. Following are some of the amendments enacted:

1. Inspection Scheme for EPFO and ESIC
2. Inspection Scheme (CLC)
3. DGMS Inspection Scheme
4. Scheme Guidelines for Pradhan Mantri Rojgar Protsahan Yojna (PMRPY)
5. The Labor Code on Occupational Safety, Health and Working Conditions
6. Draft Model Welfare Scheme for Building and Other Construction Workers as modified up to 13 July, 2018
7. Code of Discipline
8. The Payment of Wages (Mines) Amendment Rules, 2019
9. The Industrial Disputes (Central) Amendment Rules, 2019
10. The Payment of Bonus (Amendment) Rules, 2019
11. The Maternity Benefit (Mines and Circus) Amendment Rules, 2019
12. The Minimum Wages (Central) Amendment Rules, 2019
13. The Payment of Wages (Air Transport Services) Amendment Rules, 2019
14. The Payment of Wages (Railways) Amendment Rules, 2019

Recent Development in Labor Reforms: Four Labor Codes

The most recent development is the central government's proposal for a new labor legislation that would merge 44 labor laws under four categories—wages, social security, industrial safety and welfare, and industrial relations.

Historically, there are more than 150 labor-related legislations in India (including central and state), which has turned labor law compliance into a nightmare for industries and workers. Many laws had unique definitions for employers, workers (workmen in some acts), wages, etc., resulting in different and sometimes contradictory interpretations, and subsequent legal issues.

Compliance was a challenge, so there were problems because of multiplicity, i.e., 19 laws dealt with working conditions and industrial relations alone. (This was cited as a reason for poor labor management situation in the country, and administrative in-efficiency).

Though discussions about reforming Indian labor laws existed for many years, there was no concrete action taken by previous governments. Some states, on their own accord had made modifications, but the overall umbrella structure remained the same.

As mentioned earlier, the current government, started implementing the initiative of reforming them by codification and amalgamation of 44 major central laws into four labor codes. The topic was mentioned in the Budget Speech of 2017, which gave hope of consolidation. In a recent development, the current government has moved a step closer to achieving its goal of implementing the labor reforms as out of the four, two labor codes have got assent from the Cabinet and will be presented before the lower house in the budget session. Others are at advanced stages of finalization.

The four umbrella labor codes are:

- (a) **Labor Code on Wages:** It will include the Minimum Wages Act, the Payment of Wages Act, the Payment of Bonus Act, the Equal Remuneration Act.
- (b) **Labor Code on Industrial Relations:** It will include Industrial Disputes Act, 1947, The Trade Unions Act, 1926, Industrial Employment (Standing Orders) Act, 1946.
- (c) **Labor Code on Social Security and Welfare:** It will include Employees' Provident Fund and Miscellaneous Provisions Act, Employees' State Insurance Corporation Act, Maternity Benefits Act, Building and Other Construction Workers Act, and the Employees' Compensation Act.
- (d) **Labor Code on Safety and Working Conditions:** It will include the Factories Act, the Mines Act, The Dock Workers (Safety, Health and Welfare) Act.

Another initiative taken was to simplify the compliance reporting process. Instead of industry furnishing multiple returns, separately under each Act – a single annual return was introduced. The return could be filed online, which has been welcomed by industry. The government also enhanced coverage and applicability of the acts, by enhancing compensation to workmen (in case of accidents) and increasing the coverage limits, in terms of wages earned for payment of bonus, and social security. Lately, the government has also planned to increase the quantum of gratuity paid to workers.

While the reforms would help in improving administrative efficiencies and compliance, the major concern was, continued protection of rights of workers. The proposed reforms are expected to be implemented in the coming years. We will discuss the major features of the current law later in this chapter.

Labor Legislation and the Constitution of India

The Constitution of India in which the principles of democracy, socialism, and secularism are rooted in has articulated the basic principles that form the cornerstone of the Indian labor-legislation framework. The specific provisions concerned with *labor* and work are found in the Fundamental Rights and the Directive Principles of State Policy sections.

In Part III – Fundamental Rights in the Constitution of India matters touching labor are mentioned. Following Fundamental Rights touch upon the issues related to labor.

- Article 14 provides equality before law and equal protection of the laws within the territory of India.
- Article 15 provides for prohibition of discrimination on grounds of religion, race, caste, sex or place of birth.
- Article 16 provides equality of opportunity in matters of public employment.
- Article 17 provides the abolition of untouchability.
- Article 19 provides freedom of speech and association. This provides protection of certain rights regarding freedom of speech, assemble peacefully and to form associations or unions, etc.,
- Article 23 refers to the Prohibition of traffic in human beings and forced labor; and Article 24 refers to the Prohibition of employment of children in factories, etc.,
- Article 32 provides the right to enforce the fundamental rights (or remedy in case fundamental rights are violated) through courts. This article is considered very important since it protects the citizens and other bodies against any form of violation.

Similarly, Directive Principles of the State Policy is covered by the following directives: (Part IV of the constitution). The Directive Principles of State Policy, are a set of expectations set by the constitution, before the state. Both the legislature and executive are responsible to achieve the same. It is very clear that between Fundamental Rights and Directive Principles, the former is superior and the building block of good governance. At the same time, Under Article 37, the Directive Principles cannot be enforced through the court of law. Hence, the best way to describe the existence of Directive Principles is that they establish a “positive obligation” on the state. (while Fundamental Rights create negative obligation or state should not do something or allow something to happen.)

- Article 38 mandated the state to secure a social order for the promotion of welfare of the people.
- Article 41 provides the citizens the right to work, to education, and to public assistance in certain cases.
- Article 42 makes provision for just and humane conditions of work and maternity relief.
- Article 43 provides for a living wage, etc., for workers while Article 43A covers the participation of workers in management of industries.

Some other articles that cover basic state policies are: Article 45 that provides for free and compulsory education for children; Article 46 that covers promotion of educational and economic interests of Scheduled Castes, Scheduled Tribes and other weaker sections; and Article 47 that states that it is the duty of the state to raise the level of nutrition and the standard of living and improve public health.

Labor Jurisdiction for Central and State Governments

Under Article 246, in the Seventh Schedule of the Constitution of India three lists are provided, namely; List I–Union List, List II–State List, and List III–Concurrent List. These lists specify the distribution of power (legislative) between the central and state government. Labor related matters are placed in List I Union List and List III–Concurrent List meaning thereby that both Central, as well as State governments, can enact legislations keeping in mind labor welfare and to help in the growth of the economy. In practice, most labor legislations are enacted by the central government, and states have adopted them with modifications. Hence, there is uniformity in most acts, across the country.

TABLE 2-1 Seventh Schedule Entry Related to Labor

Entry No.	Subject
<i>Union List</i>	
55	<i>Regulation of labor and safety in mines and fields.</i>
61	<i>Industrial Disputes concerning Union employees.</i>
65	<i>Union agencies and institutions for "Vocational ... training..."</i>
<i>Concurrent List</i>	
22	<i>Trade Unions, Industrial as well as Labor disputes</i>
23	<i>Social Security and Social Insurance</i>
24	<i>Welfare of Labor</i>

The labor legislations in India bifurcated as enacted by Central and State Government: ⁵

- (a) Labor laws enacted by the Central Government, where the Central Government has the sole responsibility for enforcement:
 1. The Employees' State Insurance Act, 1948
 2. The Employees' Provident Fund and Miscellaneous Provisions Act, 1952
 3. The Dock Workers (Safety, Health and Welfare) Act, 1986
 4. The Mines Act, 1952
 5. The Iron Ore Mines, Manganese Ore Mines and Chrome Ore Mines Labor Welfare (Cess) Act, 1976
 6. The Iron Ore Mines, Manganese Ore Mines and Chrome Ore Mines Labor Welfare Fund Act, 1976
 7. The Mica Mines Labor Welfare Fund Act, 1946
 8. The Beedi Workers Welfare Cess Act, 1976
 9. The Limestone and Dolomite Mines Labor Welfare Fund Act, 1972
 10. The Cine Workers Welfare (Cess) Act, 1981
 11. The Beedi Workers Welfare Fund Act, 1976
 12. The Cine Workers Welfare Fund Act, 1981
- (b) Labor laws enacted by the Central Government and enforced both by Central and State Governments:
 1. The Child Labor (Prohibition and Regulation) Act, 1986
 2. The Building and Other Constructions Workers' (Regulation of Employment and Conditions of Service) Act, 1996

3. The Contract Labor (Regulation and Abolition) Act, 1970
 4. The Equal Remuneration Act, 1976
 5. The Industrial Disputes Act, 1947
 6. The Industrial Employment (Standing Orders) Act, 1946
 7. The Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
 8. The Labor Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 198
 9. The Maternity Benefit Act, 1961
 10. The Minimum Wages Act, 1948
 11. The Payment of Bonus Act, 1965
 12. The Payment of Gratuity Act, 1972
 13. The Payment of Wages Act, 1936
 14. The Cine Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981
 15. The Building and Other Construction Workers Cess Act, 1996
 16. The Apprentices Act, 1961
 17. Unorganized Workers Social Security Act, 2008
 18. Working Journalists (Fixation of Rates of Wages Act, 1958)
 19. Merchant Shipping Act, 1958
 20. Sales Promotion Employees Act, 1976
 21. Dangerous Machines (Regulation) Act, 1983
 22. Dock Workers (Regulation of Employment) Act, 1948
 23. Dock Workers (Regulation of Employment) (Inapplicability to Major Ports) Act, 1997
 24. Private Security Agencies (Regulation) Act, 2005
- (c) Labor laws enacted by the Central Government and enforced by the State Governments:
1. The Employers' Liability Act, 1938
 2. The Factories Act, 1948
 3. The Motor Transport Workers Act, 1961
 4. The Personal Injuries (Compensation Insurance) Act, 1963
 5. The Personal Injuries (Emergency Provisions) Act, 1962
 6. The Plantation Labor Act, 1951
 7. The Sales Promotion Employees (Conditions of Service) Act, 1976
 8. The Trade Unions Act, 1926
 9. The Weekly Holidays Act, 1942
 10. The Working Journalists and Other Newspapers Employees (Conditions of Service) and Miscellaneous Provisions Act, 1955
 11. The Workmen's Compensation Act, 1923
 12. The Employment Exchange (Compulsory Notification of Vacancies) Act, 1959
 13. The Children (Pledging of Labor) Act 1938
 14. The Bonded Labor System (Abolition) Act, 1976
 15. The Beedi and Cigar Workers (Conditions of Employment) Act, 1966
- (d) Labor laws enacted and enforced by the various State Governments which apply to respective States.

Articles Affecting Government Employment

The government and its associated agencies are the largest formal sector employers in India. A government job, by its nature, cannot always be strictly classified along the type of work done in private organizations that are covered by other labor legislations. The constitution has laid down separate provisions related to government employees, for both central and state governments. Article 309 refers to recruitment and conditions of service of people employed by central or state government. Article 310 specifies the tenure of persons holding office, and Article 311 refers to the dismissal, removal and demotion of government employees.

Features of Labor Legislation in India

One main point about Indian labor laws is that there are a number of legislations that are operational in this sphere and each legislation is enacted to serve a specific objective. The objective of each legislation is specified in the legislations under the heading “Prefatory Note—Statement of Objectives and Reasons.” Judgments of high courts and the Supreme Court of India provide clarifications, revisions and reinterpretations from time to time. The legislations have been classified according to the objective of the respective act.

Laws Related to Industrial Relationships

Maintaining smooth relations between management and labor has been one of the main objectives of Indian industrial relations. Laws falling under this domain are mainly “regulative” in nature. They specify the do’s and don’ts.

The Trade Unions Act, 1926 *is among the first such legislations and was enacted before independence giving right to employees/labor to form unions/collectives providing them legal protection and regulate their activities.* Under the act, trade unions are to be registered with the appropriate government-appointed Registrar of Trade Unions. This Act provided freedom for any seven employees to apply to register a trade union, but a later amendment (2001) specified minimum membership as 10% of unionisable employees or 100, whichever is less. The act does not make recognition of trade union as representative of workers by the employers compulsory. It permits registration of the union and the registered trade unions receive protection from certain civil and criminal actions. The act does not specify any criterion or method for recognition of trade union by the employer as the representative of employees. Various state governments like Maharashtra have enacted separate legislations to deal with *such* recognition.

The **Industrial Employment (Standing Orders) Act, 1946** *was enacted by Central government and is to be enforced by both central as well as state government.* It is regulatory in nature; by formally defining conditions of employment, the act serves to reduce conflict and also be a communication mechanism between management and labor. Industrial establishments have to frame standing orders and apply for certifications for those as well. *Certification will be done by the designated certifying officer after considering the objections invited from workmen or trade unions.* In the absence of certified standing orders, the model standing orders provided in the act will automatically apply, except in Gujarat and Maharashtra.

The Industrial Disputes (ID) Act, 1947 has been enacted by the central government and enforced by the state government. It is regulatory since it puts restrictions on the direct actions that can be taken by both the parties involved

in the industrial dispute. Different conflict resolution forums have been proposed, including works committees (Section 3), conciliation officers (Section 4), boards of conciliation (Section 5), courts of inquiry (Section 6), labor courts (Section 7), tribunals (Section 7A) and the national tribunal (Section 7B). The act also allows the government to intervene in the interest of maintaining industrial peace. Section 10 of the Act gives the government power to refer industrial disputes to boards, courts or tribunals for the purpose of arriving at a settlement. Section 10A of the Act provides the employer and the employee with the power to refer the dispute to arbitration before it is referred to any labor court or tribunal. Since it was enforced, the act has been amended on various occasions. In the context of demand for labor reforms, the suitability of different provisions of the act have been questioned from the perspective of increasing employment, productivity, and flexibility.

The debate on the Industrial Dispute Act starts with the definition of the “industry” itself, which got widened by the Supreme Court in its landmark judgments in *Bangalore Water Supply and Sewage Board v Rajappa*, (1978) case.

Chapter V – Strikes and Lock-Outs Section 22, 23 and 24 which place restrictions on the employees of public utilities from going on strike without giving appropriate notice, i.e., the employee should give notice within six weeks before striking and fourteen days of giving such notice, the employee may go on strike or when any conciliation effort is operational. It has also provisions Section 25 A regarding layoffs for firms employing more than 50 workmen, Section 25 C for payment of layoff compensation, Section 25 F for retrenchment of workmen after giving sufficient notice, and Section 25 FFA for the closure of undertakings.

Laws related to Wages

The **Payment of Wages Act of 1936** was enacted with an objective of ensuring payment of wages to certain groups of employees, at regular intervals and without any unauthorized deductions. Section 5 of the Act provides relief to the group of employees in case of nonpayment of wages on time, and section 7 provides relief if unauthorized deductions are made.

The objective of the **Minimum Wages Act of 1948** is to ensure that the minimum rate of wages is paid to all those who are engaged in wage employment. Section 3 empowers the state and central government to declare minimum wages for employment categories given in schedule I & II of the Act. Section 4 of the Act specifies the structure of minimum wage and Section 5 provides procedure for fixing and revising minimum wages at regular intervals. Non-payment of minimum wages is an offence under the legislation.

With more than 1500 minimum wages declared by central and state governments, India has one of the most complicated Minimum Wages systems. Paycheck India (www.paycheck.in) maintains a regularly updated database of minimum wage of all states and central sphere.

Laws related to Working Hours, Conditions of Services and Employment

The **Factories Act, 1948** is one of the most important legislations covering the manufacturing sector. The act provides safeguards for workers to protect their health, safety at the workplace when dealing with machinery, improves the physical conditions at the workplace, and provides welfare amenities.

Factories are approved, licensed, and registered under the Factories Act (Section 6) and authorities are appointed by the government (Chief Inspector of Factories and Inspectors (Sections 8 and 9). The Certifying Surgeons (Section 10) ensure implementation of the act. Chapter III–Health, i.e., section 11 to 20 provides for provisions directing the employers to maintain a minimum standard to not affect the health of the workmen/employee of the factory. Chapter IV–Safety, i.e., sections 21 to 41 provide for safety measures to be taken by employers to safeguard the life of the workmen/employee. The act also provides for the appointment of welfare officers in factories employing more than 500 workers (Section 49) and safety officers (Section 40B), with appropriate qualifications. Chapter V–Welfare, provides for the measures to be taken by employers to safeguard the welfare of the workmen/employee. Chapter VI–Working Hours of Adults, provides for provisions stating the minimum working hours for any adult, weekly holidays, compensatory holidays, daily hours of working, compulsory intervals for rest during the prescribed working hours, total working hours of the day, wages to be paid for the overtime worked by the workmen. This Act also levies restrictions on employment of women, i.e., no woman will be required or allowed to work in any factory except between 6 a.m. and 7 p.m. Chapter VII of the Act lays down provision related to employment of young persons. Sections 67 to 77 provides provisions for prohibition of employment of young children, i.e., child who has not completed his fourteenth year, working hours of children, i.e., no child shall be permitted to work in a factory for more than four and a half hours in any day. The manager of each factory shall have to maintain a register of child workers. Section 111 of the Act states the obligations of the workers and section 111A states the right of the worker.

Laws Related to Equality and Empowerment of Women

The **Maternity Benefit Act, 1961**, is a social-welfare oriented law aimed at empowering women it provides security (both employment and financial) for women employees working in certain establishments, (except those dismissed for gross misconduct only, since the act prohibits discharge/dismissal during the period of pregnancy) for defined periods before and after childbirth.

Thus, Section 5 of the act makes it the right for women to avail maternity benefits including pay and leave and employers liable to provide the same. Some states have added provisions that provide for additional benefits such as free medical aid, maternity bonus, provision of crèches, additional rest intervals, etc.,

The act also provides for cash and non-cash benefits, including a maximum period of leave of twenty-six weeks (latest amendment), divided equally between pre-birth and post-birth periods. Section 4.3 of the Act provides for non-cash benefits including reduced workload, Section 8 states providing a medical bonus if the employer does not provide pre- and post-natal support and Section 11 states to provide two nursing breaks every working day till the child attains fifteen months.

The Equal Remuneration Act, 1976 has its basis in Article 39 which is a part of the Directive Principles of State Policy, of the Constitution of India. The act directs the state to ensure equal pay for equal work for men and women⁷. Section 4 of the act stipulates that there should be no discrimination between genders in matters of remuneration for the same type of work and Section 5 states that there shall be no discrimination in recruitment and, subsequently,

in promotions, training or transfers unless the law explicitly prohibits the employment of women. This legislation assumes significance in the context of wide wage gap existing between genders in India.

Laws Related to Social Security

The **Workmen's Compensation Act, 1923** is the earliest social security legislation in India, enacted with the purpose of making the employer liable to pay compensation to employees who are affected by personal injury arising out of accidents. Section 2 (1) (g) provides for the compensation payable for partial disablement and Section 2 (1) (i) provides for compensation payable for total disablement.

The claim for compensation has to arise from an event that is “out of” and “in the course” of employment, and hence, necessarily has not taken place in the formal place of work. The expression “out of” the course of employment refers to the casual connection between accident and employment, while “in the course of” refers to the time of accident.⁶ If only one condition is fulfilled, then, the claim for compensation is not admissible.

The **Employees State Insurance Act, 1948** has been enacted with the objective of securing financial relief in cases of sickness, maternity, disablement and for providing medical benefits to employees of factories and establishments, and their dependents. This act is also applicable to non-seasonal factories using power and employing 10 or more employees, and non-power using factories and certain other establishments employing 20 or more employees. Employees and employers make contribution to the scheme and various benefits are given to eligible employees like:

- Sickness Benefit — in cash. (Section 46 (1) (a))
- Maternity Benefit — in cash. (Section 46(1) (b))
- Disablement Benefit — in cash. (Section 46 (1) (c))
- Dependents' Benefit — in cash. (Section 46 (1) (d))
- Funeral Expenses — in cash. (Section 46 (1) (f))
- Medical Benefit — as service and kind. (Section 46 (1) (e))

The **Employees' Provident Funds and Miscellaneous Provisions Act, 1952** is a social security legislation for employees working in factories and other establishments. A dedicated Provident Fund has been created with the contribution from employer and employee. The objective is to provide monetary assistance to employees and their families, when they are in distress, unable to meet family and social obligations and to protect them in old age, disablement, early death (of the employee) and in some other contingencies.

The **Payment of Gratuity Act, 1972** is an additional financial benefit given to employees of organizations irrespective of salary or status, when their services end because of superannuation, retirement or resignation or death, or disablement. (Section 4). The act provides for gratuity payment to all employees at the prescribed rates (currently 15 days for every year of service).

As stated in section 2A of the act, an employee is required to have five years of continuous service to be eligible (except in case of death or disablement) to receive gratuity. In a recent amendment, the government had introduced, the Payment of Gratuity (Amendment) Bill, 2018 which received assent of both the houses of the parliament and came into force on 29.03.2018. By this amendment, the government has increased the ceiling of payment of gratuity to ₹20,00,000 for employees who are covered under this act. Under Section 4(5) of the law, employers can enter into an agreement with employees and pay higher amount, though the difference is taxable in the hands of the receiver.

The Bill also amends the provisions relating to the calculation of continuous service for the purpose of gratuity in case of female employees who are on maternity leave from 'twelve weeks' to 'such period as may be notified by the Central Government from time to time'. This period has also been notified as twenty-six weeks.

This will ensure harmony amongst employees in the private sector and in Public Sector Undertakings/ Autonomous Organizations under the government who are not covered under CCS (Pension) Rules. These employees will be entitled to receive a higher amount of gratuity at par with their counterparts in the government sector.

Applicability of Labor Laws to the IT/ITES Sector

One of the questions asked in HR circles is regarding the applicability of labor laws to the IT and ITES (BPO) sector. The common perception is that this sector is outside the coverage of labor legislations.

From the nature of work performed, it can be seen that IT/ITES companies are covered by the Shops and Commercial Establishments Act of 1961. The **Shops and Commercial Establishments Act, 1961** has seen enactments from most states of India. In fact, state acts existed even before the central act came into force in 1961 making it state-specific meeting the requirements of the state. This act deals with important work-related aspects like restrictions on working hours, overtime rate to be paid to employees, spreadovers, and earned and sick leave. This act also prohibits the employment of children, underage people, and women during night hours and lays down the procedure for dismissal, discharge, and termination of employment. In the interest of encouraging IT/ITES firms to function more effectively, many states have made suitable amendments in the state acts, granting them exemptions from many critical aspects of labor legislations. (For example, exemption from Apprentices Act and Industrial Employment (Standing Orders) Act 1946 or flexibility in opening and closing times, employment of women in night shifts, weekly offs, etc., and many states particularly to allow employment of women during night hours and even permit 24-hour operation. While these exemptions may have provided the required flexibility related to employee management, some writers argue that the freedom may be misused by a section.⁷

For example: In January 2014, the State Government of Karnataka allowed exemption for IT/ITES firms from the Industrial Employment (Standing Orders) Act for a further period of five years. For some months before the notification, the earlier exemption was over and firms had to draft their standing orders and get it certified from the Labor Department. The latest exemption was granted with specific conditions including a) setting up of a committee for handling sexual harassment complaints, in accordance with the relevant act. b) setting up an internal committee for handling employee grievances and c) the relevant authorities (jurisdictional Deputy Labor Commissioner and Commissioner of Labor, Karnataka State) has to be informed about the cases of disciplinary, dismissals, termination, etc.⁸ Following the notification, in one of the much-publicized cases, the Labor Department after hearing the case filed by terminated employee of the Indian office of a U.S.-based software company (non-managerial employee who had received good hike in compensation and congratulatory letters for performance) decided that the termination was unfair and ordered the company to compensate the employee.⁹



LEARNING OBJECTIVE 2-2

List the basic features of employment laws, and explain with examples how to deal with labor law issues.

Title VII of the 1964 Civil Rights Act, U.S.

The section of the act that says an employer cannot discriminate on the basis of race, color, religion, sex, or national origin with respect to employment.

ITES/BPO employees fall easily within the definition of “workmen” under the Industrial Disputes Act unless they are in the managerial cadre. In the interest of facilitating the sector, many state governments have declared IT/ITES companies as “public utility services,” where restrictions on strikes and lockouts exist (Section 22 of ID Act 1947). Similarly, exemptions from the application of labor law are a common feature of SEZ’s. The given relaxations do not mean that the IT/ITES industry is outside the purview of all labor legislations that provide a protective cover to the employees. Many exemptions are for specific period of time or locations (like SEZs) and cannot be considered as permanent. Many governments have also allowed self-certification instead of inspections, and the firms are expected to abide by the law of the land.

Equal Opportunity Laws Enacted in the U.S. from 1964 to 1991

Hardly a day goes by without equal opportunity lawsuits at work.¹⁰ One survey of corporate counsels found that such lawsuits were their biggest litigation fears.¹¹ Performing day-to-day supervisory tasks like hiring employees without understanding these laws is fraught with peril.

Actually, laws barring discrimination against minorities in the United States are nothing new. The Fifth Amendment to the U.S. Constitution (ratified in 1791) states that “no person shall be deprived of life, liberty, or property, without due process of the law.” The Thirteenth Amendment (1865) outlawed slavery, and courts have held that it bars racial discrimination. The Civil Rights Act of 1866 gives all persons the same right to make and enforce contracts and to benefit from U.S. laws.¹² But as a practical matter, Congress and presidents avoided dramatic action on implementing equal employment laws until the early 1960s. At that point, civil unrest among minorities and women and changing traditions prompted them to act. Congress passed a multitude of new civil rights laws.

Title VII of the 1964 Civil Rights Act

Title VII of the 1964 Civil Rights Act was one of the first of these laws. As amended by the 1972 Equal Employment Opportunity Act, Title VII states that an employer cannot discriminate based on race, color, religion, sex, or national origin. Specifically, it states that it shall be an unlawful employment practice for an employer:

1. To fail or refuse to hire or to discharge an individual or otherwise to discriminate against any individual with respect to his or her compensation, terms, conditions, or privileges of employment, because of such individual’s race, color, religion, sex, or national origin.
2. To limit, segregate, or classify employees or applicants for employment in any way that would deprive or tend to deprive any individual of employment opportunities or otherwise adversely affect his or her status as an employee, because of such individual’s race, color, religion, sex, or national origin.

Title VII bars discrimination on the part of most employers, including all public or private employers of 15 or more persons and most labor unions. It also covers all private and public educational institutions, the federal government, and state and local governments. It bars public and private employment agencies from failing or refusing to refer for employment any individual because of race, color, religion, sex, or national origin.

Equal Employment Opportunity Commission (EEOC)

The commission, created by Title VII, empowered to investigate job discrimination complaints and sue on behalf of complainants.

Title VII established the **Equal Employment Opportunity Commission (EEOC)** to administer and enforce the Civil Rights Act at work. It consists of five members appointed by the president with the advice and consent of the Senate. Each member serves a 5-year term. In popular usage, the EEOC also includes the thousands of staff the EEOC has around the United States. They receive and investigate job discrimination complaints from aggrieved individuals. When the EEOC finds reasonable cause that the charges are justified, it attempts (through conciliation) to reach an agreement.¹³ If this fails, it can go to court. The EEOC may file discrimination charges on behalf of aggrieved individuals, or the individuals may file on behalf of themselves.¹⁴

■ HR AND THE GIG ECONOMY: DISCRIMINATION IN THE GIG ECONOMY?

Most companies use recruiters, supervisors, and/or HR professionals to do their hiring, so if an applicant suffers discrimination it's usually pretty clear who did it.¹⁵ But what do you do when you're a gig worker, doing work through a gig economy company like Uber, Task Rabbit, or Fiverr? Here the people doing the "hiring" are usually Task Rabbit, Uber, or Fiverr users, and they're hiring based on reviews compiled from previous users, or from photos in your profile. What stops customers from illegally discriminating?

Unfortunately, the answer may be, "not much." For example, in one study of labor markets like Task Rabbit and Fiverr, black service providers got more negative reviews than did white ones. Because the rating algorithms are then based partly on prior customers' reviews, the black service providers were usually less likely to get new gigs. It's therefore a problem that gig companies (and customers) need to address.

Executive Orders

Various U.S. presidents signed executive orders expanding equal employment in federal agencies. For example, the Johnson administration (1963–1969) issued Executive Orders 11246 and 11375. These required that government contractors with contracts of more than \$50,000 and 50 or more employees take **affirmative action** to ensure employment opportunities for those who may have suffered past discrimination. They also established the **Office of Federal Contract Compliance Programs (OFCCP)**. It implements the orders and ensures compliance.¹⁶

Equal Pay Act of 1963

Under the **Equal Pay Act of 1963** (amended in 1972), it is unlawful to discriminate in pay on the basis of sex when jobs involve equal work; require equivalent skills, effort, and responsibility; and are performed under similar working conditions. Pay differences derived from seniority systems, merit systems, and systems that measure earnings by production quantity or quality or from any factor other than sex do not violate the act. Unfortunately, this act notwithstanding, women still earn only about 70% as much as men in similar jobs; we'll address this inequity and how to deal with it in our chapter on establishing strategic pay plans.

Age Discrimination in Employment Act of 1967

The **Age Discrimination in Employment Act of 1967 (ADEA)** made it unlawful to discriminate against employees or applicants who are between 40 and 65 years of age. Subsequent amendments effectively ended most mandatory retirement at age 65. Most states and local agencies, when acting as employers, must also adhere to the ADEA.¹⁷

Vocational Rehabilitation Act of 1973

The act requiring certain federal contractors to take affirmative action for disabled persons.

Pregnancy Discrimination Act

An amendment to Title VII of the Civil Rights Act that prohibits sex discrimination based on “pregnancy, childbirth, or related medical conditions.”

Vocational Rehabilitation Act of 1973

The **Vocational Rehabilitation Act of 1973** requires employers with federal contracts of more than \$2,500 to take affirmative action in employing handicapped persons. It does not require hiring unqualified people. It does require an employer to take steps to accommodate a handicapped worker unless doing so imposes an undue hardship on the employer.

Pregnancy Discrimination Act of 1978

The **Pregnancy Discrimination Act** of 1978 prohibits using pregnancy, childbirth, or related medical conditions to discriminate in hiring, promotion, suspension, or discharge, or in any term or condition of employment. Furthermore, under the act, if an employer offers its employees disability coverage, then it must treat pregnancy and childbirth like any other disability, and include it in the plan as a covered condition.¹⁸

More women are suing under this act, and it’s easy to see why.¹⁹ As one example, a Chipotle restaurant let go a pregnant employee. She told the jury that despite a history of positive performance feedback, her manager allegedly began harassing her when she said she was pregnant. For example, she was made to announce bathroom breaks to coworkers and told she couldn’t leave early for doctors’ appointments.

The jury awarded her actual losses plus \$500,000 in punitive damages.²⁰ The bottom line is that managers should base “any [such] decision on whether an employee can do the job and on medical documentation, not on a manager’s interpretation.”²¹



The Laws Enacted from 1991 to the Present

Civil Rights Act of 1991 (CRA 1991)

The act that places the burden of proof back on employers and permits compensatory and punitive damages.

The Civil Rights Act of 1991

Several subsequent Supreme Court rulings in the 1980s limited the protection of women and minority groups under equal employment laws. For example, they raised the plaintiff’s burden of proving that the employer’s acts were in fact discriminatory. This prompted Congress to pass a new Civil Rights Act. U.S. President George H. W. Bush signed the **Civil Rights Act of 1991 (CRA 1991)** into law in 1991. The effect of CRA 1991 was to roll back equal employment law to where it stood before the 1980s decisions and to place more responsibility on employers.

BURDEN OF PROOF First, CRA 1991 addressed the issue of *burden of proof*. Burden of proof—what the plaintiff must show to establish possible illegal discrimination, and what the employer must show to defend its actions—plays a central role in equal employment cases.²² Today, in brief, once an aggrieved applicant or employee demonstrates that an employment practice (such as “must lift 100 pounds”) has an adverse impact on a particular group, then the burden of proof shifts to the employer, who must show that the challenged practice is job related.²³ For example, the employer has to show that lifting 100 pounds is required for performing the job in question, and that the business could not run efficiently without the requirement—that it is a business necessity.²⁴

MONEY DAMAGES Before CRA 1991, victims of *intentional* discrimination (which lawyers call *disparate treatment*) who had not suffered financial loss and who sued under Title VII could not then sue for compensatory or punitive

damages. All they could expect was to have their jobs reinstated (or to get a particular job). They were also eligible for back pay, attorneys' fees, and court costs.

CRA 1991 makes it easier to sue for *money damages* in such cases. It provides that an employee who is claiming intentional discrimination can ask for (1) compensatory damages, and (2) punitive damages, if he or she can show the employer engaged in discrimination "with malice or reckless indifference to the federally protected rights of an aggrieved individual."²⁵

"mixed-motive" case

A discrimination allegation case in which the employer argues that the employment action taken was motivated not by discrimination, but by some nondiscriminatory reason such as ineffective performance.

MIXED MOTIVES Some employers in "mixed-motive" cases had taken the position that even though their actions were discriminatory, other factors like the employee's dubious behavior made the job action acceptable. Under CRA 1991, an employer cannot avoid liability by proving it would have taken the same action—such as terminating someone—even without the discriminatory motive.²⁶ *If there is any such motive, the practice may be unlawful.*²⁷

The Americans with Disabilities Act

The **Americans with Disabilities Act (ADA)** of 1990 prohibits employment discrimination against qualified disabled individuals.²⁸ It prohibits employers with 15 or more workers from discriminating against qualified individuals with disabilities, with regard to applications, hiring, discharge, compensation, advancement, training, or other terms, conditions, or privileges of employment.²⁹ It also says employers must make "reasonable accommodations" for physical or mental limitations unless doing so imposes an "undue hardship" on the business.

The ADA does not list specific disabilities. Instead, EEOC guidelines say someone is disabled when he or she has a physical or mental impairment that "substantially limits" one or more major life activities. Initially, impairments included any physiological disorder or condition, cosmetic disfigurement, or anatomical loss affecting one or more of several body systems, or any mental or psychological disorder, but the list is growing.³⁰

The act specifies conditions that it does *not* regard as disabilities, including homosexuality, compulsive gambling, pyromania, and certain disorders resulting from the current illegal use of drugs.³¹

Mental disabilities account for the greatest number of ADA claims.³² Under EEOC ADA guidelines, "mental impairment" includes "any mental or psychological disorder, such as . . . emotional or mental illness." Examples include major depression, anxiety disorders, and personality disorders. The ADA also protects employees with intellectual disabilities, including those with IQs below 70–75.³³ The guidelines say employers should be alert to the possibility that traits normally regarded as undesirable (such as chronic lateness, hostility, or poor judgment) may reflect mental impairments. Reasonable accommodation might then include providing barriers between work spaces.

QUALIFIED INDIVIDUAL Just being disabled doesn't qualify someone for a job, of course. Instead, the act prohibits discrimination against **qualified individuals**—those who, with (or without) a reasonable accommodation, can carry out the *essential functions* of the job. The individual must have the requisite skills, educational background, and experience. A job function is essential when, for instance, it is the reason the position exists, or it is so highly specialized that the employer hires the person for his or her expertise or ability to perform that particular function.

Americans with Disabilities Act (ADA)

The act requiring employers to make reasonable accommodations for disabled employees; it prohibits discrimination against disabled persons.

qualified individuals

Under ADA, those who can carry out the essential functions of the job.

FIGURE 2-1 Examples of How to Provide Reasonable Accommodation

- Employees with *mobility or vision impairments* may benefit from voice-recognition software.
- Word-prediction software suggests words based on context with just one or two letters typed.
- Real-time translation captioning enables employees to participate in meetings.
- Vibrating text pagers notify employees when messages arrive.
- Arizona created a disability-friendly Web site to help link prospective employees and others to various agencies.

REASONABLE ACCOMMODATION If the individual can't perform the job as currently structured, the employer must make a "reasonable accommodation" unless doing so would present an "undue hardship."³⁴ Reasonable accommodation might include redesigning the job, modifying work schedules, or modifying or acquiring equipment or other devices; widening door openings or permitting telecommuting are examples.³⁵

Attorneys, employers, and the courts continue to work through what "reasonable accommodation" means.³⁶ In one classic case, a Walmart door greeter with a bad back asked if she could sit on a stool while on duty. The store said no. The U.S. federal court agreed door greeters must act in an "aggressively hospitable manner," which can't be done from a stool.³⁷ Standing was an essential job function. You can use technology and common sense to make reasonable accommodation (see Figure 2-1). prevented her from doing her job.³⁸ The U.S. Supreme Court ruled that the ADA covers carpal tunnel syndrome only if her impairments affect not just her job performance, but also her daily living activities. The employee admitted that she could perform personal chores such as washing her face and fixing breakfast. The Court said the disability must be central to the employee's daily living (not just to his or her job).³⁹

Many employers simply take a progressive approach. Common employer concerns about people with disabilities (for instance, that they are less productive and have more accidents) are generally baseless.⁴⁰

Rights of Disabled People in India

The Rights of People with Disabilities Act 2016 (Disabilities Act 2016) came into effect from June 15, 2017 as the law to protect and prohibit discrimination against persons with disabilities. The act mandated all organizations to develop an equal opportunity policy and register it with Central or State authorities (as applicable). Organizations were also mandated to provide access and create suitable environment for the disabled to function effectively. This law, which replaced the earlier persons with Disabilities (Equal Opportunity, Protection of Rights and Full Participation) Act 1995. While the old law covered only 7 types of disabilities, the new law covered 21 disabilities.

Religious Discrimination⁴¹

In the U.S., the EEOC enforces laws prohibiting discrimination based on age, disability, equal pay/compensation, genetic information, national origin, pregnancy, race/color, religion, retaliation, sex, and sexual harassment. Article 15 of the Indian Constitution places the right of an India citizen not to be discriminated on grounds of religion, caste, gender and place of birth, as a fundamental right. Article 16 mandates equality in employment to any office of state. The purpose of the above provisions is to provide a life with dignity and respect to all Indians.

Religious discrimination involves treating someone unfavorably because of his or her religious beliefs.

Trends in Discrimination Law

Some trends are expanding equal employment's impact, while others are forming new headwinds.

In terms of the former, the U.S. Supreme Court held that the Federal Defence of Marriage Act's exclusion of state-sanctioned, same-sex marriages was unconstitutional.⁴² The Department of Labor (DOL) then held that under the Employee Retirement Income Security Act (ERISA), "The term 'spouse' will be read to refer to any individuals who are lawfully married under any state law, including those . . . who are [now] domiciled in a state that doesn't recognize such marriages."⁴³ In 2014, then-President Obama signed an executive order barring federal contractors from discriminating against lesbian, gay, bisexual, and transgender employees, for instance in benefits.⁴⁴ In 2017, a federal appeals court ruled that the Title VII ban on sex discrimination means employers cannot discriminate against lesbian and gay workers.⁴⁵ Several states require that employers permit people who don't identify with either the male or female gender to check off a third, "non-binary" classification.⁴⁶ The DOL passed regulations requiring that federal contractors employ a minimum (7%) of disabled workers or face penalties, possibly including loss of their contracts.⁴⁷

Recent decisions may produce headwinds. The U.S. Supreme Court upheld a Michigan constitutional amendment banning affirmative action in admissions to the state's public universities. This may allow voters in other states to eliminate affirmative action-based admissions to their public universities.⁴⁸ And in two other decisions, the Court made it more difficult for someone to bring a retaliation claim against an employer; it also more strictly defined "supervisor," reducing the likelihood someone could show that an employer was responsible for a "supervisor's" harassing behavior.⁴⁹ With its stated goal of reducing regulations, the Republican administration could be less supportive of EEO regulations (and regulations in general). In 2017, Attorney General Sessions said religious organizations could employ only people whose beliefs are consistent with the companies' religious principles.⁵⁰

Sexual Harassment Law in India

For long, India did not have a formal law that dealt with sexual harassment in workplaces. In 1997, taking cognizance of the gang rape of a social worker, the Supreme Court of India, on the basis of a petition filed by NGOs and social activists, had given guidelines and norms to handle cases of sexual harassment of women in workplaces [*Vishakha and others V. State of Rajasthan*, 1997 (6) SCC 241].

Post-*Vishakha* case, the first case before the Supreme Court was *Apparel Export Promotion Council V. A.K. Chopra* [1999 (1) SCC 759]. In this judgment, the Supreme Court enlarged the definition of sexual harassment by ruling that physical contact was not essential for it to amount to an act of sexual harassment. The Supreme Court explained that "sexual harassment is a form of sex discrimination projected through unwelcome sexual advances, request for sexual favours and other verbal or physical conduct with sexual overtones, whether directly or by implication, particularly when submission to or rejection of such conduct by the female employee was capable of being used for affecting the employment of the female employee and unreasonably interfering with her work performance and had the effect of creating an intimidating or hostile work environment for her."

In another case, of *Medha Kotwal Lele & Others. V. Union of India & Others* [2013 (1) SCC 311], the Supreme Court observed that “the implementation of the Vishakha Guidelines has to be not only in form but also in substance and spirit so as to make available safe and secure environment for women at workplace in every aspect and thereby enabling working women to work with dignity, decency and due respect.” Not being satisfied with the implementation of the Vishakha Guidelines, it directed States to put in place sufficient mechanisms to ensure effective implementation of the Vishakha Guidelines. Finally, the Supreme Court asserted that in case of a non-compliance or non-adherence of the Vishakha Guidelines, it would be open to the aggrieved persons to approach the respective High Courts.

The Vishakha judgement was considered as a landmark one that enabled to protect the rights and safety of women workers in India, and many organizations initiated steps to implement the same. The National Commission for Women (NCW) developed drafts of the proposed law, and the “Protection of Women against Sexual Harassment at Workplace Bill”, was introduced in 2007. After a series of amendments, the Act came into force in 2013.

The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 is a legislation aimed “to provide protection against sexual harassment of women at workplace and for prevention and redressal of complaints of sexual harassment.” The law is anchored in the Constitution of India because any act of sexual harassment leads to violation of the fundamental rights of a citizen (right for equality under Articles 14 and 15) and right to life with dignity (Article 21), and the right to engage in a profession.

The law covers a wide variety of enterprises, including government, private sector, trusts, NGOs, educational institutions, sports venues and competitions. In case, the work requires women employee to travel, harassment in the location and even company provided transportation has been covered. The act also applies to the unorganized sector workplaces and non-traditional forms of work (like telecommuting).

The law has defined sexual harassment to include the following behaviours (Section 2 (n)).

- Physical contact or advances
- A demand or request for sexual favours
- Making sexually coloured remarks
- Showing pornography
- Any other unwelcome physical, verbal or non-verbal conduct of sexual nature

In addition, if the following conditions exist, the act or behaviour can be deemed as sexual harassment under Section 3 (2).

- (i) Implied or explicit promise of preferential treatment in employment
- (ii) Implied or explicit threat of detrimental treatment in employment
- (iii) Implied or explicit threat about her present or future employment status
- (iv) Interferes with work or creates an intimidating/hostile/offensive work environment
- (v) Humiliating treatment likely to affect her health and safety

The most important part of the law is the prescribed redress mechanism. (Section 4) All organizations have to constitute an internal complaint handling arrangement (internal complaints committee). The committee should be headed by a senior woman employee (Presiding Officer) and half the members of the committee should be women. Participation of representatives from external agencies (NGOs) is also mandated.

In case, offices of the firm are distributed in different locations, the committees have to be formed for each location. For government and other workers, a Local Complaints Committee has to be constituted at all districts, to handle cases and also in cases of firms without an internal committee, or the complaint is against the employer. (Section 6) In case of non-availability of senior women to be part of the committee, representatives of other organizations are allowed to be part of the committee.

On the receipt of complaint (within three months of the incident or in case of series of incidents three months from the last incident), the internal/local committee has to initiate an enquiry. In case of complaints from domestic workers, the matter has to be reported to the police, [Section 11 (1)] The procedure for enquiry and subsequent action will be according to the service rules of the company. In case the complaint is found not to be true, then the committee can report that no action needs to be taken [Section 13(2)]. However, if the complaint has been made in malicious intent, and the intent has been proved, action can be taken against the complainant according to service rules. [Section 14 (1)]. Similar action is prescribed against false witnesses in a case.

The internal committee has powers of a civil court for trying the cases [Section 11 (3)] and has to complete the enquiry within 90 days. The committee has also powers to work out a conciliation agreement if the aggrieved party requests, without the involvement of any money.

After enquiry, the committee can recommend compensation to be paid. Under Section 16, the identity of complainant and witnesses have to be protected and even the committee members who act against the provision can be punished (Section 17).

The employers' duty under the act has also been specified. They are bound to set up the complaints committee, organize awareness about the program, hold training programs and build a capacity of ICC members to handle the issues. In case of failure of the employer to comply with the act, they can be fined or in extreme cases, can lead to cancellation or non-renewal of the licence to operate.

In addition to protection under the act, working women also have support from other legislations like The Indian Penal Code and the Information Technology Act. In the event of facing an act of sexual harassment, a FIR (First Information Report) can be launched with the police.

Other Laws Pertaining to Workplace Sexual Harassment⁵¹

1. **Industrial Employment (Standing Orders) Act, 1946.** The Industrial Employment (Standing Orders) Act, 1946 ("Standing Orders Act") The Standing Orders Act prescribes Model Standing Orders, serving as guidelines for employers and in the event that an employer has not framed and certified its own standing orders, the provisions of the Model Standing Orders shall be applicable. The Model Standing Orders prescribed under the Industrial Employment (Standing Orders)

Central Rules, 1996 (“Standing Orders Rules”) prescribe a list of acts constituting ‘misconduct’ and specifically includes sexual harassment. The Model Standing Orders not only defines ‘sexual harassment’ in line with the definition under the Vishakha Judgment but also envisages the requirement to set up a complaints committee for redressal of grievances pertaining to workplace sexual harassment. It is interesting to note that ‘sexual harassment’ is not limited to women under the Standing Orders Rules.

2. **Indian Penal Code, 1860.** Any conduct that may be construed as sexual harassment not only violates the Prevention of Workplace Sexual Harassment Act but also could constitute an offence under the IPC. Listed out below are the key offenses under the IPC that could be triggered in a case of sexual harassment.

Section	Offence
354	<i>Outraging the modesty of a woman</i> <i>Assault or use of criminal force to any woman, intending to outrage or knowing it to be likely that modesty would be outraged.</i>
354-A	<i>Sexual harassment by a man</i> (i) Physical contact and advances involving unwelcome and explicit sexual overtures; (ii) Demand or request for sexual favours; (iii) Showing pornography against the will of a woman; or (iv) making sexually coloured remarks.
354-B	<i>Assault or use of criminal force to woman with intent to disrobe</i> <i>Assault or use of criminal force to any woman or abetment of such act with the intention of disrobing or compelling her to be naked.</i>
354-C	<i>Voyeurism</i> <i>Watching, or capturing the image of a woman engaging in a private act in circumstances where she would usually have the expectation of not being observed either by the perpetrator or by any other person at the behest of the perpetrator or disseminates such image.</i>
354-D	<i>Stalking</i> <i>Following a woman and contacting or attempting to contact such woman to foster personal interaction repeatedly despite a clear indication of disinterest by such woman; or Monitoring the use by a woman of the internet, email or any other form of electronic communication.</i>
509	<i>Insulting the modesty of a woman</i> <i>Uttering any word, making any sound or gesture, or exhibiting any object, intending that such word or sound shall be heard, or that such gesture or object shall be seen, by a woman, with an intention to insult her modesty, or intruding upon the privacy of such woman.</i>

sexual harassment

Harassment on the basis of sex that has the purpose or effect of substantially interfering with a person's work performance or creating an intimidating, hostile, or offensive work environment.

Federal Violence Against Women Act of 1994

The act that provides that a person who commits a crime of violence motivated by gender shall be liable to the party injured.

Sexual Harassment Law in the U.S.

The past few years have witnessed a dramatic increase in accusations and admissions of sexual harassment.⁵²

Under Title VII, **sexual harassment** generally refers to harassment on the basis of sex when such conduct has the purpose or effect of substantially interfering with a person's work performance or creating an intimidating, hostile, or offensive work environment. In one recent year, the EEOC received 11,717 sexual harassment charges, about 15% of which were filed by men.⁵³ (The U.S. Supreme Court held, in *Oncale v. Sundowner Offshore Services Inc.*, that same-sex sexual harassment is also actionable under Title VII.⁵⁴) One study found "women experienced more sexual harassment than men, minorities experienced more ethnic harassment than whites, and minority women experience more harassment overall than majority men, minority men, and majority women."⁵⁵ In late 2017 the EEOC updated its sexual harassment guidelines.⁵⁶

Under EEOC guidelines, employers have an affirmative duty to maintain workplaces free of sexual harassment and intimidation. CRA 1991 permits victims of intentional discrimination, including sexual harassment, to have jury trials and to collect compensatory damages for pain and suffering and punitive damages, where the employer acted with "malice or reckless indifference" to the person's rights.⁵⁷ The **Federal Violence Against Women Act of 1994** further provides that a person "who commits a crime of violence motivated by gender and thus deprives another" of her rights shall be liable to the party injured.

WHAT IS SEXUAL HARASSMENT? EEOC guidelines define *sexual harassment* as unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature that takes place under any of the following conditions:

1. Submission to such conduct is made either explicitly or implicitly a term or condition of an individual's employment.
2. Submission to or rejection of such conduct by an individual is used as the basis for employment decisions affecting such individual.
3. Such conduct has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile, or offensive work environment.

PROVING SEXUAL HARASSMENT There are three main ways someone can prove sexual harassment:

1. ***Quid Pro Quo***. The most direct is to prove that rejecting a supervisor's advances adversely affected what the EEOC calls a "tangible employment action," such as hiring, firing, promotion, demotion, and/or work assignment. In one case, the employee showed that continued job success and advancement were dependent on her agreeing to the sexual demands of her supervisors. "Sexual harassment" generally requires that the behavior be pervasive or severe. Thus, in one case, the court ruled that although the supervisor had touched the employee's shoulder twice as he drove her back from work and also mentioned that she "owed him" for hiring her, she did not have a trial-able sexual harassment claim.⁵⁸

2. ***Hostile Environment Created by Supervisors.*** The harassment need not have tangible consequences such as demotion. For example, one court found that a male supervisor's behavior had substantially affected a female employee's emotional and psychological ability to the point that she felt she had to quit her job. Therefore, even though the supervisor made no direct threats or promises in exchange for sexual advances, his advances interfered with the woman's performance and created an offensive work environment. That was sufficient to prove sexual harassment. Courts generally do not interpret as sexual harassment sexual relationships that arise during the course of employment but that do not have a substantial effect on that employment.⁵⁹ The U.S. Supreme Court also held that sexual harassment law doesn't cover ordinary "intersexual flirtation." In his ruling, Justice Antonin Scalia said courts must carefully distinguish between "simple teasing" and truly abusive behavior.⁶⁰
3. ***Hostile Environment Created by Coworkers or Nonemployees.*** Coworkers or nonemployees can trigger such suits. One court held that a mandatory sexually provocative uniform led to lewd comments by customers. When the employee refused to wear the uniform, she was fired. The employer couldn't show there was a job-related necessity for the uniform, and only female employees wore it. The court ruled that the employer, in effect, was responsible for the sexually harassing behavior. Such abhorrent client behavior is more likely when the clients are in positions of power, and when they think no one will penalize them.⁶¹ Employers are also liable for the sexually harassing acts of nonsupervisory employees if the employer knew or should have known of the conduct.

WHEN IS THE ENVIRONMENT "HOSTILE"? Hostile environment sexual harassment generally means the intimidation, insults, and ridicule were sufficiently severe to alter the employee's working conditions. Courts look at several things. These include whether the discriminatory conduct is *frequent or severe*; whether it is *physically threatening* or humiliating, or a mere offensive utterance; and whether it unreasonably *interferes* with an employee's work performance.⁶² Courts also consider whether the employee subjectively *perceives* the work environment as being abusive. For example, did he or she welcome the conduct or immediately complain?⁶³

Implications for Employers and Managers These decisions suggest an employer can defend itself against sexual harassment liability by showing two things:

First, it must show "that the employer exercised reasonable care to prevent and correct promptly any sexually harassing behavior."⁶⁴

Second, it must demonstrate that the plaintiff "unreasonably failed to take advantage of any preventive or corrective opportunities provided by the employer." The employee's failure to use formal reporting systems would satisfy the second component.⁶⁵

Prudent employer steps therefore include:⁶⁶

1. Constitute an internal complaints committee (ICC) as per the provisions of the act. Take all complaints about harassment seriously.
2. Issue a strong policy statement condemning such behavior. Describe the prohibited conduct, assure protection against retaliation, describe a confidential complaint process, and provide impartial investigation and corrective action.

3. Take steps to prevent sexual harassment from occurring. For example, communicate to employees that the employer will not tolerate sexual harassment, and take immediate action when someone complains.
4. Establish a management response system that includes an immediate reaction and investigation.
5. Train supervisors and managers to increase their awareness of the issues, and discipline managers and employees involved in sexual harassment.
6. Involve trade unions and other representatives in communication and awareness building activities.

The following Tools feature provides guidelines for managers.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

How to Address Sexual Harassment:⁶⁷

- Take all complaints about harassment seriously.
- Issue a strong policy statement condemning such behavior. Describe the prohibited conduct, assure protection against retaliation, describe a confidential complaint process, and provide impartial investigation and corrective action.
- Take steps to prevent sexual harassment from occurring. For example, communicate to employees that the employer will not tolerate sexual harassment, and take immediate action when someone complains.
- Establish a management response system that includes an immediate reaction and investigation.
- Train supervisors and managers as well as employee union leaders to increase their awareness of the issues, and discipline those involved in sexual harassment. ■

WHY THE LAW ISN'T ENOUGH Unfortunately, several problems can negate the legal requirements.

First, “Women perceive a broader range of socio-sexual behaviors (touching, for instance) as harassing.”⁶⁸ In one study, about 58% of employees reported experiencing potentially harassment-type behaviors at work. About four times as many men as women found the behavior flattering or benign.⁶⁹ Sexual harassment training and policies can reduce this problem.⁷⁰

Second, victims are often fearful (for instance, of not getting the job). In one study, the male interviewer asked female applicants improper questions such as “Do you have a boyfriend?” and “Do people find you desirable?”⁷¹ All the applicants answered all the questions. When asked why, they said they felt more fear than anger in the interview.

Third, victims often won't complain.

Finally, neither harassment training nor the HR department are always helpful. Many such training programs simply fulfill the employer's legal obligation to show that it educated employees about the firm's antiharassment policies. And when they do receive harassment reports, many HR departments do nothing.⁷²

WHAT THE EMPLOYEE CAN DO First, complain. Remember that courts generally look to whether *the harassed employee used the employer's reporting procedures*

to file a complaint promptly. If the employer has an effectively communicated complaint procedure, use it and then cooperate in the investigation.⁷³ In that context, steps an employee can take include:

1. Speak with the harasser and his or her boss, stating that the unwanted overtures should cease.
2. Inform your own supervisor.
3. If the problem does not cease, file written reports regarding the unwelcome conduct and unsuccessful efforts to get it to stop with the harasser's manager and/or the human resource director.
4. If the letters and appeals to the employer do not suffice, contact the authorities to file the necessary claim. In very serious cases, the employee can also consult a lawyer about suing the harasser.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Some employees will use Facebook and other accounts to harass and bully coworkers (as with disparaging comments). Here, employers must distinguish between illegal online harassment (that applying to race, religion, national origin, age, sex/gender, genetic information, and disability discrimination) and common personality conflicts. However, at a minimum, employers should have a zero-tolerance policy on bullying.⁷⁴

Of course, social media has also been a boon for staffing, for instance for finding candidates on LinkedIn. However, viewing an applicant's social media profile can be problematic, as it may reveal information on things like religion, race, and sexual orientation.⁷⁵ Some states forbid employers from requiring or even requesting employees' or applicants' passwords. It's therefore sensible to have policies restricting who can check out candidates online and how they can do it. Supervisors probably should not do such checking themselves. ■

Defenses Against Discrimination Allegations in the U.S.

To understand how employers defend themselves against employment discrimination claims, we should first briefly review some basic legal terminology.

Discrimination law distinguishes between disparate *treatment* and disparate *impact*. *Disparate treatment* means intentional discrimination. Disparate treatment "exists where an employer treats an individual differently because that individual is a member of a particular race, religion, gender, or ethnic group."⁷⁶ A rule that says "We don't hire drivers over 60 years of age" exemplifies this.

Disparate impact means that "an employer engages in an employment practice or policy that has a greater adverse impact (effect) on the members of a protected group under Title VII than on other employees, regardless of intent."⁷⁷ A rule that says "Employees must have college degrees to do this particular job" exemplifies this.

The Central Role of Adverse Impact

Showing that one of the employer's employment practices or policies has an **adverse impact** therefore plays a central role in discriminatory practice allegations.⁷⁸ Under Title VII and CRA 1991, a person who believes that (1) he or she was a victim of unintentional discrimination because of an employer's practices need only, (2) establish a *prima facie* case of discrimination. This

means showing, for instance, that the employer's selection procedures (like requiring a college degree for the job) did have an adverse impact on the protected minority group.

In practice, an applicant or employee can use one of the following five methods to show that one of an employer's procedures (such as a selection test) has an adverse impact on a protected group.

disparate rejection rates

A test for adverse impact in which it can be demonstrated that there is a discrepancy between rates of rejection of members of a protected group and of others.

4/5ths rule

Federal agency rule that a minority selection rate less than 80% (4/5ths) of that for the group with the highest rate is evidence of adverse impact.

DISPARATE REJECTION RATES The **disparate rejection rate** method compares the rejection rates for a minority group and another group (usually the remaining nonminority applicants).⁷⁹

Federal agencies use a "**4/5ths rule**" to assess disparate rejection rates: "A selection rate for any racial, ethnic, or sex group which is less than four-fifths or 80% of the rate for the group with the highest rate will generally be regarded as evidence of adverse impact, while a greater than four-fifths rate will generally not be regarded as evidence of adverse impact." For example, suppose the employer hires 60% of male applicants but only 30% of female applicants. Four-fifths of the 60% male hiring rate would be 48%. Because the actual female hiring rate of 30% is less than 48%, adverse impact exists as far as these federal agencies are concerned.⁸⁰

THE STANDARD DEVIATION RULE Similarly, the courts have used the *standard deviation rule* to confirm adverse impact. (The standard deviation is a statistical measure of variability. It is a measure of the dispersion of a set of data from its mean. Suppose we calculate the average height of students in your management class. In simplest terms, the standard deviation helps to describe, among other things, how wide a range there is in height between the shortest and tallest students and the class's average student height.) In selection, the standard deviation rule holds that, as a rule of thumb, the difference between the numbers of minority candidates we *would have expected* to hire and whom we *actually hired* should be less than two standard deviations.

Consider this example. Suppose 300 applicants apply for 20 openings; 80 of the applicants are women, and the other 220 are men. We use our screening processes and hire 2 females and 18 males. Did our selection process have an adverse impact? To answer this, we can compute the standard deviation:

$$SD = \sqrt{\frac{\left(\frac{\text{Number of minority applicants}}{\text{Number of total applicants}} \right) \times \left(\frac{\text{Number of nonminority applicants}}{\text{Number of total applicants}} \right) \times (\text{Number of applicants selected})}$$

In our case:

$$\begin{aligned} SD &= \sqrt{\left(\frac{80}{300} \times \frac{200}{300} \times 20 \right)} = \sqrt{(0.2667 \times 0.7333 \times 20)} \\ &= \sqrt{3.911} = SD = 1.977 \end{aligned}$$

In our example, women are 26% (80/300) of the applicant pool. We should therefore *expect* to hire 26% of the 20 people hired, or about 5 women. We *actually* hired 2 women. The difference between the numbers of women we would expect to hire and whom we actually hired is $5 - 2 = 3$. We can use the standard deviation rule to gauge if there is adverse (disparate) impact. In our example, the standard deviation is 1.977. Again, the standard deviation

rule holds that as a rule of thumb, the difference between the numbers of minority candidates we would have expected to hire and whom we actually hired should be less than two standard deviations. Two times 1.9777 is about 4. Since the difference between the number of women we would have expected to hire (5) and actually hired (2) is 3, the results suggest that our screening did not have adverse impact on women. (Put another way, in this case, hiring just 2 rather than 5 is not a highly improbable result.)⁸¹

RESTRICTED POLICY The **restricted policy** approach means demonstrating that the employer's policy intentionally or unintentionally excluded members of a protected group. Here the problem is usually obvious—such as policies against hiring guards less than 6 feet tall. Evidence of restricted policies such as these is enough to prove adverse impact and to expose an employer to litigation.

POPULATION COMPARISONS This approach compares (1) the percentage of minority/protected group and white workers in the organization with, (2) the percentage of the corresponding group in the labor market.

“Labor market,” of course, varies with the job. For some jobs, such as secretary, it makes sense to compare the percentage of minority employees with the percentage of minorities in the surrounding community, since they will come from that community. But determining whether an employer has enough black engineers might involve determining the number available nationwide, not in the surrounding community.

Employers use *workforce analysis* to analyze the data regarding the firm's use of protected versus nonprotected employees in various job classifications. The process of comparing the percentage of minority employees in a job (or jobs) at the company with the number of similarly trained minority employees available in the relevant labor market is *utilization analysis*.

1. That the person belongs to a protected class.
2. That he or she applied and was qualified for a job for which the employer was seeking applicants.
3. That, despite this qualification, he or she was rejected
4. That, after his or rejection, the position remained open and the employer continued seeking applications from persons with the complainant's qualifications.



LEARNING OBJECTIVE 2-3

List the steps in the enforcement process.

Labor Administration in India

Labor administration machinery in India is similar for the centre and states with slight variations relating to implementing agencies and requirements of the state enactments and non-statutory Labor programmes. Labor is included in the Concurrent List in Schedule VII of the Constitution of India, which provides both centre and state both power to enact law regarding Labor as per the needs. Certain laws as stated in this chapter are enacted by the centre and enforced by the state governments.

Central Level Labor Administration:

Ministry of Labor and Employment, Government of India⁸² is among the oldest ministries in India. The ministry headed by a Cabinet Minister has the vision “Decent working conditions and improved quality of life of workers,

ensuring India without child Labor in hazardous sectors and enhancing employability through employment services and skill development on a sustainable basis”⁸³ The office of Chief Labor Commissioner (Central) is an important department under the ministry, which is mandated to help maintain harmonious industrial relations in Central Government establishments. Other organizations under the ministry include Central Board of Workers Education and Directorate of Employment. Organizations for ensuring Safety and occupational health standards in central industries, mines and coordinating with states also are part of the ministry.

State Level Labor Administration: The main organizations for Labor administration in the states are: Department of Labor or equivalent. Many states will have a minister (with cabinet rank or otherwise) heading the labor ministry. In addition, the department hosts Chief inspectorate of factories, Chief inspectorate of boilers, Office of chief inspector, shops and establishments, directorate, employment and training, directorate, medical services ESI scheme), social security directorate and adjudication authorities.

Adjudication is a very important function of under the labor department. The state governments have also constituted Labor courts and tribunals under the Industrial Disputes Act, 1947, and a few of them have set up other adjudication authorities such as industrial courts and wages boards under state laws.



LEARNING OBJECTIVE 2-4

Give examples of attitudes that undermine diversity efforts, and explain how you would create a diversity management program.

diversity

The variety or multiplicity of demographic features that characterize a company's workforce, particularly in terms of race, sex, culture, national origin, handicap, age, and religion.

stereotyping

Ascribing specific behavioral traits to individuals based on their apparent membership in a group.

gender-role stereotypes

The tendency to associate women with certain (frequently nonmanagerial) jobs. On the other hand, diversity can be an engine of performance, as the following feature shows.

Diversity Management

Diversity means being diverse or varied and at work means having a workforce composed of two or more groups of employees with various racial, ethnic, gender, cultural, national origin, handicap, age, and religious backgrounds.⁸⁴ We introduce diversity and diversity management here, and then address them in features throughout the book.

Potential Threats to Diversity

Workforce diversity produces both benefits and problems for employers. Unmanaged, it can produce behavioral barriers that reduce cooperation. Potential problems include:

- **Stereotyping.** Here someone ascribes specific behavioral traits to individuals based on their apparent membership in a group:⁸⁵ for example, “older people can’t work hard.” Cheryl Sandberg, Facebook’s Chief Operating Officer, says many people hold such unconscious assumptions (stereotypes); one is that men are expected to be assertive while women should be collaborative. So, a woman who pushes for more for herself is viewed as “bossy,” whereas a man is viewed as doing his job.⁸⁶ Put another way, women confront **gender-role stereotypes**, the tendency to associate women with certain (frequently nonmanagerial) jobs.⁸⁷

Prejudice is a bias toward prejudging someone based on that person’s traits, as in “we won’t hire him because he’s old.” Some people’s biases are subconscious. To check, try asking questions like, “Do I typically hire the same type of person?” and “To whom do I generally assign the best projects?”⁸⁸

- **Discrimination** is prejudice in action. It means taking specific actions toward or against the person based on the person’s group.⁸⁹ Of course,

discrimination

Taking specific actions toward or against a person based on the person's group.

tokenism

When a company appoints a small group of women or minorities to high-profile positions, rather than more aggressively seeking full representation for that group.

ethnocentrism

The tendency to view members of other social groups less favorably than members of one's own group.

it's generally illegal to discriminate at work based on someone's age, race, gender, disability, or national origin. But in practice, discrimination may be subtle. For example, many argue that a "glass ceiling," enforced by an "old boys' network" (friendships built in places like exclusive clubs), hinders women from reaching top management.

- **Tokenism** means a company appoints a small group of women or minorities to high-profile positions, rather than more aggressively seeking full representation for that group.⁹⁰
- **Ethnocentrism** is the tendency to view members of other social groups less favorably than one's own. Thus, in one study, managers attributed the performance of some minorities less to their abilities and more to help they received from others. The same managers attributed the performance of nonminorities to their own abilities.⁹¹



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Diversity can actually drive higher profits. In one study, researchers examined the diversity climate in 654 stores of a large U.S. retail chain. They defined *diversity climate* as the extent to which employees in the stores said the firm promotes equal opportunity and inclusion. They found the highest sales growth in stores with the highest pro-diversity climate, and the lowest in stores where subordinates and managers reported less hospitable diversity climates.⁹² Another study found racial discrimination to be related negatively to employee commitment, while organizational efforts to support diversity reduced such negative effects.⁹³ ■

managing diversity

Maximizing diversity's potential benefits while minimizing its potential barriers.

Managing Diversity

The key to deriving such benefits is properly managing diversity's potential problems. **Managing diversity** means maximizing diversity's potential benefits while minimizing the potential problems—such as prejudice—that can undermine cooperation. In practice, diversity management requires both compulsory and voluntary actions. Compulsory actions can't guarantee cooperation. Managing diversity therefore also relies on taking voluntary steps to encourage employees to work together productively.⁹⁴

TOP-DOWN DIVERSITY MANAGEMENT PROGRAMS The employer may institute a *diversity management program*, usually at the initiative of a top executive. The program's main aim is to make employees more sensitive to and better able to deal with cultural differences. First, make sure diversity training is the solution, or if some other approach is more advisable. Next, set measurable program goals, for instance, in terms of quantifiable attitudes toward diversity.⁹⁵ Then, five steps are typical:⁹⁶

Provide strong leadership. Companies with exemplary reputations in managing diversity typically have CEOs who champion the cause of diversity. Leadership here means, for instance, becoming a role model for the behaviors required for the change. One study concluded that top managers who excelled at creating inclusive organizations were also those who were personally passionate about encouraging inclusion and diversity.⁹⁷

Assess the situation. One study found that the most common tools for assessing a company's diversity include equal employment hiring and retention

metrics, employee attitude surveys, management and employee evaluations, and focus groups.

Provide diversity training and education. The most common starting point for a diversity management effort is usually some type of employee education program.

Change culture and management systems. Combine education programs with other concrete steps aimed at changing the organization's culture and management systems. For example, change the performance appraisal procedure to appraise supervisors based partly on their success in reducing intergroup conflicts.

Evaluate the diversity management program. For example, do employee attitude surveys now indicate any improvement in employees' attitudes toward diversity?

The problem is that many diversity programs are ineffective. Some fail because even positively inclined employees may resist participating in mandatory programs.⁹⁸ Others fail by providing a false sense of security. For instance one study found that appointing diversity committees and chief diversity officers lulled managers into believing their workplace was inclusive when it was not.⁹⁹

Some firms are therefore pursuing alternatives. The consulting firm Deloitte LLP concluded that gender-based diversity groups are no longer the best way to encourage diversity. Instead, it is creating what it calls inclusion councils. Rather than groups comprised of only women or minorities, the councils each include a diversity of inputs and points of view.¹⁰⁰

DIVERSITY THROUGH ENGAGEMENT Others wisely design their diversity efforts to elicit their employees' engagement and active participation.¹⁰¹ For example, at software company SAP, the Chief Learning Officer discovered that while participants rated SAP's diversity training program highly, the program seemed to produce only limited results. She therefore replaced it with a year-long leadership development program she called the "Leadership Excellence Acceleration Program" (LEAP). Every year LEAP gathers together high-performing female employees. For a year they then engage in exercises such as in-house team consulting assignments and listening to speakers.¹⁰² SAP also offers female employees a global business network of 8,000 female employees, and SAP's board recently committed to boosting the leadership positions held by SAP women to 25% (from 23%).¹⁰³ SAP's efforts seem to be successful, in terms its female employees moving into management positions.¹⁰⁴



IMPROVING PERFORMANCE : HR AS A PROFIT CENTER

Workforce diversity makes strategic sense. With strong top-management support, IBM created several minority task forces focusing on groups such as women and Native Americans. One effect of these terms has been internal: In the 10 or so years since forming them, IBM has boosted the number of U.S.-born ethnic minority executives by almost 2 1/2 times.¹⁰⁵

However, the firm's diversity program also aided IBM's strategy of expanding its markets and business results. For example, one task force decided to focus on expanded IBM's market among multicultural and women-owned businesses. It did this in part by providing "much-needed sales and service support to small and mid size businesses, a niche well populated with minority and female buyers."¹⁰⁶ As a direct result, this IBM market grew from \$10 million to more than \$300 million in revenue in just 3 years. ■

good-faith effort strategy

An affirmative action strategy that emphasizes identifying and eliminating the obstacles to hiring and promoting women and minorities, and increasing the minority or female applicant flow.

reverse discrimination

Claim that due to affirmative action quota systems, general candidates are discriminated against.

FIGURE 2-2 Steps in an Affirmative Action Program

Diversity management can blend a diverse workforce into a close-knit and productive community.

PROGRAM EVALUATION Is the diversity program effective? Some common-sense questions to ask include:

- Are there women and other groups reporting directly to senior managers, and in senior manager positions?
- Do women and other groups have a fair share of the jobs that are the traditional stepping-stones to successful careers in the company?
- Do women and other groups have equal access to international assignments?
- Is the employer taking steps that ensure that female and other groups will be in the company's career development pipeline?
- Are turnover rates for female and other groups the same or lower than those for white males?
- Do employees report that they perceive positive behavior changes as a result of the diversity efforts?¹⁰⁷

Reverse Discrimination

Reverse discrimination means discriminating against general or *non*minority applicants and employees.¹⁰⁸

The bottom line seems to be that employers should emphasize the external recruitment and internal development of better-qualified employees, “while basing employment decisions on legitimate criteria.”¹⁰⁹

1. Issue a written equal employment policy indicating that the firm is an equal employment opportunity employer and the employer's commitment to affirmative action.
2. Demonstrate top-management support for the equal employment policy—for instance, appoint a high-ranking EEO administrator.
3. Publicize internally and externally the equal employment policy and affirmative action commitment.
4. Survey current minority and female employment by department and job classification to determine where affirmative action programs are especially desirable.
5. Carefully analyze employer human resources practices to identify and eliminate hidden barriers.
6. Review, develop, and implement specific HR programs to improve female and minority utilization.
7. Use focused recruitment to find qualified applicants from the target group(s).
8. Establish an internal audit and reporting system to monitor and evaluate progress.
9. Develop support for the affirmative action program, inside the company and in the community.

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Chapter Review

Chapter Section Summaries

2-1. Employment-related laws (labor laws) existed in Indian before Independence. All the laws have their basis in the Indian Constitution. India has more than 150 laws related to labor, which has led to administrative inefficiency. Currently, the government is proposing consolidation of laws into four codes. In the U.S., several of the most important **equal employment opportunity laws became law in the period from 1964 to 1991**. Several of the most important **equal employment opportunity laws became law in the period from 1964 to 1991**.

- Title VII of the 1964 Civil Rights Act states that an employer cannot discriminate based on race, color, religion, sex, or national origin. Title VII established the Equal Employment Opportunity Commission and covers most employees.
- Under the Equal Pay Act of 1963 (amended in 1972), it is unlawful to discriminate in pay on the basis of sex when jobs involve equal work, skills, effort, and responsibility and are performed under similar working conditions.
- The Age Discrimination in Employment Act of 1967 made it unlawful to discriminate against employees or applicants who are between 40 and 65 years of age.

2-2. Equal employment law continues to evolve, with important **new legislation enacted since 1990–1991**.

- In India, the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 or POSH Act and in the U.S., Title VII at workplace illegal. The Federal Violence Against Women Act of 1994 provided women with another way

to seek relief for (violent) sexual harassment. Basically, sexual harassment refers to unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature that takes place, for instance, when such conduct is made either explicitly or implicitly a term or condition of an individual's employment. Three main ways to prove sexual harassment include *quid pro quo*, hostile environment created by supervisors, and hostile environment created by coworkers or those who are not employees.

2-3. The Labor Administration machinery in India which exists at the centre and states is responsible for **enforcement**. Labor is included in Schedule VII of the Constitution of India giving both centre and state power to legislate laws as per need of the local labor force and working conditions. Each state has different needs and so the department is designed accordingly but broadly it is headed by a Minister.

2-4. **Managing diversity** means maximizing diversity's potential benefits while minimizing the potential barriers. General steps include providing strong leadership, assessing the situation, providing diversity training and education, changing the culture and management systems, and evaluating the diversity management program's results. Affirmative action generally means taking actions to eliminate the present effects of past discrimination. Many employers still pursue voluntary, good-faith effort strategies in identifying and eliminating the obstacles to hiring and promoting women and minorities. Other employers are under court-mandated requirement to do so.

Discussion Questions

- 2-1. Explain the labor administration of any one state of India in detail.
- 2-2. Explain the four labor codes as proposed in India.

- 2-3. What is sexual harassment? How can an employee prove sexual harassment?
- 2-4. What is the difference between disparate treatment and disparate impact?

Individual and Group Activities

- 2-5. Working individually or in groups, respond to these three scenarios based on what you learned in this chapter. Under what conditions (if any) do you think the following constitute sexual harassment? (a) A female manager fires a male employee because he refuses her requests for sexual favors. (b) A male manager refers to female employees as “sweetie” or “baby.” (c) A female employee overhears two male employees exchanging sexually oriented jokes.
- 2-6. Working individually or in groups, discuss how you would set up an affirmative action program.
- 2-7. Working individually or in groups, write a one-page paper titled “What the Manager Should Know About How the EEOC Handles a Person’s Discrimination Charge.”
- 2-8. Explain the difference between affirmative action and equal employment opportunity.
- 2-9. Assume you are the manager in a small restaurant; you are responsible for hiring employees, supervising them, and recommending them for promotion. Working individually

or in groups, compile a list of potentially discriminatory management practices you should avoid.

- 2-10. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and, (4) if time permits, have someone from your team post your team’s questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.



Experiential Exercise

"While in Transit"

On February 21, 2008, the Supreme Court of India dismissed an appeal by the former Managing Director (MD) of HP GlobalSoft, the BPO arm of Hewlett Packard headquartered in Bengaluru. The appeal was made against an order of the High Court of Karnataka that held the MD responsible for violating provisions of the labor law.¹¹⁰

The relevant law pertained to Section 25 of the Karnataka Shops and Commercial Establishments Act of 1961, which prohibited employment of women and young persons during night shifts. But an amendment to the above Act in 2002 allowed the state government to exempt IT and ITES companies, subject to certain conditions. One of the conditions was that the employers were responsible for the transport and safety of women employees who were scheduled to work in night shifts. When a woman employee of HP GlobalSoft was murdered by the driver of the vehicle under contract to the company,

the MD was charged for failing to provide security, as mandated by the law. Though the final verdict has not come in yet, if held liable by the court, the MD faces a maximum fine of ₹ 1,000 under section 30(1) of the Act.

Purpose: The purpose of this exercise is to provide practice in analyzing and applying knowledge of legislation to a real problem.

Required Understanding: Be thoroughly familiar with the material presented in this chapter.

How to Set Up the Exercise/Instructions:

- Divide the class into groups.
 - Each group should develop answers to the following questions:
- 2-11. Based on what you read in this chapter, on what legal basis could the employer be held responsible?"

Application Case

Seeking Gender Equity at Starbucks

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Starbucks is progressive in terms of gender equity policies.¹¹¹ By the 1990s it was offering health insurance coverage to Starbucks partners (employees) who were in lesbian and gay relationships, and its health care insurance covers gender reassignment surgery. More recently it announced that it had eliminated its partners' gender wage gap: Starbucks male and female partners performing similar work are paid almost exactly the same—within 99.7% of each other (compared with about 70% nationwide).

However, several large Starbucks shareholders think its gender efforts still fall short. For example, Zevin Asset Management proposed that Starbucks report on whether its paid family leave policy was discriminatory. According to Starbucks, the policy is generous and competitive for a retail chain. For example, it gives Starbucks corporate office workers 16 weeks paid leave if they gave birth, and 12 weeks if they are new fathers or adoptive parents. Starbucks says its program is exceptional because even employees who work just 20 hours a week can use it. But Zevin says the problem is that the policy is discriminatory because retail store workers who give birth or adopt only get six weeks of paid leave and fathers get none. Some shareholders say this will harm

Starbucks' reputation, because it is on record as saying that it tries to treat corporate and retail partners the same.

Although shareholders often reject proposals like these, employers may still implement the recommendations, particularly when they involve equitable treatment. Several years ago, for instance another investment firm proposed that several tech giants like Amazon and Apple pay male and female employees equitably. The proposal never came to a vote, because the tech firms soon closed their gender wage gaps.

So at the end of the day, such proposals present top managers with a dilemma. Starbucks, for instance, believed that its parental leave policy was already one of the best in the industry, and that was probably true. Yet it did seem somewhat inequitable to offer better benefits to corporate office workers than to those in the retail stores.

Questions

- 2-12. Do you agree that it is inequitable to offer the corporate workers better benefits than the store partners? Why? Is that what the law would seem to say?
- 2-13. What arguments would you make as Starbucks' CEO concerning why the current policy is fair?
- 2-14. How would you handle this situation if you were running a company that was confronted by a shareholder making these demands?

Continuing Case

Carter Cleaning Company

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A Question of Discrimination

One of the first problems Jennifer faced at her father's Carter Cleaning Centers concerned the inadequacies of the firm's current HR management practices and procedures.

One problem that particularly concerned her was the lack of attention to equal employment matters. Each store manager independently handled virtually all hiring; the managers had received no training regarding such fundamental matters as the types of questions they should not ask of job applicants. It was therefore not unusual for female applicants to be asked questions such as "Who's going to take care of your children while you are at work?" and for minority applicants to be asked questions about arrest records and credit histories. Nonminority applicants—three store managers were white males and three were white females—were not asked these questions, as Jennifer discerned from her interviews with the managers. Based on discussions with her father, Jennifer deduced two reasons for the laid-back attitude toward equal employment: (1) her father's lack of insight about the legal requirements, and (2) the fact that, as Jack Carter put it, "Virtually all our workers are women or minority members anyway, so no one can come in here and accuse us of being discriminatory, can they?"

Jennifer decided to mull that question over, but before she could, she was faced with two serious equal rights problems. Two women in one store privately confided to her that their manager was making unwelcome sexual advances toward them. One claimed he had threatened to fire her unless she "socialized" with him after hours. And during a fact-finding trip to another store, an older gentleman—he was 73 years old—complained of the fact that although he had almost 50 years of experience, he was paid less than people half his age in the same job. Jennifer's review of the stores resulted in the following questions.

Questions

- 2-15. Is it true, as Jack Carter claims, that "virtually all our workers are women or minority members anyway, so no one can come in here and accuse us of being discriminatory"?
- 2-16. How should Jennifer and her company address the sexual harassment charges and problems?
- 2-17. How should she and her company address the possible problems of age discrimination?
- 2-18. Given the fact that each of its stores has only a handful of employees, is her company covered by equal rights legislation?
- 2-19. And finally, aside from the specific problems, what other personnel management matters (application forms, training, and so on) have to be reviewed given the need to bring them into compliance with equal rights laws? Rawpixel.com/Shutterstock?

Key Terms

Title VII of the 1964 Civil Rights Act, U.S., 58
Equal Employment Opportunity Commission (EEOC), 59
Vocational Rehabilitation Act of 1973, 60

Pregnancy Discrimination Act, 60
Civil Rights Act of 1991 (CRA 1991), 60
“mixed-motive” case, 61
Americans with Disabilities Act (ADA), 61
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Federal Violence Against Women Act of 1994, 67
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Endnotes

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11. Betsy Morris, “How Corporate America Is Betraying Women,” *Fortune*, January 10, 2005, pp. 64–70.
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13. For a conciliation agreement, see “FedEx to Pay \$3 Million, Amend Practices to Settle OFCCP Charges of Bias in Hiring,” *Bloomberg BNA Bulletin to Management*, March 27, 2012, p. 97.
14. Individuals may file under the Equal Employment Act of 1972.
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23. “The Eleventh Circuit Explains Disparate Impact, Disparate Treatment,” *BNA Fair Employment Practices*, August 17, 2000, p. 102. See

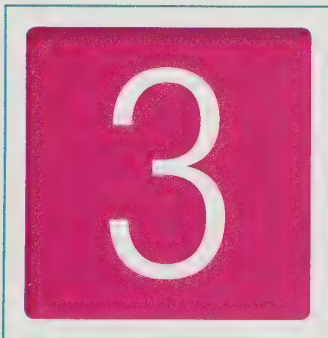
- also Kenneth York, "Disparate Results in Adverse Impact Tests: The 4/5ths Rule and the Chi Square Test," *Public Personnel Management* 31, no. 2 (Summer 2002), pp. 253–262; and "Burden of Proof Under the Employment Non-Discrimination Act," www.civilrights.org/lgbt/enda/burden-of-proof.html, accessed August 8, 2011.
24. We'll see that the process of filing a discrimination charge goes something like this: The plaintiff (say, a rejected applicant) demonstrates that an employment practice (such as a test) has a disparate (or "adverse") impact on a particular group. *Disparate impact* means that an employer engages in an employment practice or policy that has a greater adverse impact (effect) on the members of a protected group under Title VII than on other employees, regardless of intent. (Requiring a college degree for a job would have an adverse impact on some minority groups, for instance.) Disparate impact claims do *not* require proof of discriminatory intent. Instead, the plaintiff's burden is to show two things. First, he or she must show that a significant disparity exists between the proportion of (say) women in the available labor pool and the proportion hired. Second, he or she must show that an apparently neutral employment practice, such as word-of-mouth advertising or a requirement that the jobholder "be able to lift 100 pounds," is causing the disparity. Then, once the plaintiff fulfills his or her burden of showing such disparate impact, the employer has the heavier burden of proving that the challenged practice is job related. For example, the employer has to show that lifting 100 pounds is actually required for effectively performing the position in question, and that the business could not run efficiently without the requirement—that it is a business necessity.
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 29. "ADA: Simple Common Sense Principles," *BNA Fair Employment Practices*, June 4, 1992, p. 63; and www.eeoc.gov/facts/ada17.html, accessed September 24, 2011.
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 78. Moran, *Employment Law*, p. 168.
 79. Employers use several types of statistics in addressing adverse impact. (For a discussion, see Robert Gatewood and Hubert Feild, *Human Resource Selection* [Fort Worth, TX: The Dryden Press, 1994], pp. 40–42, and Jean Phillips and Stanley Gully, *Strategic Staffing* [Upper Saddle River, NJ: Pearson, 2012], pp. 68–69.) For example, *stock statistics* might compare *at a single point in time* (1) the percentage of female engineers the company has, as a percentage of its total number of engineers, with (2) the number of trained female engineers in the labor force as a percentage of the total number of trained engineers in the labor force. Here, the question of relevant labor market is important. For example, the relevant labor market if you're hiring unskilled assemblers might be the local labor market within, say, 20 miles from your plant, whereas the relevant labor market for highly skilled engineers might well be national and possibly international. *Flow statistics* measure proportions of employees, in particular, groups at two points in time: before selection and after selection takes place. For example, when comparing the percentage of minority applicants who applied with the percentage hired, the employer is using flow statistics. An employer's company-wide minority hiring statistics may be defensible company-wide but not departmentally. The employer therefore may employ *concentration statistics* to drill down and determine the concentration of minorities versus nonminorities in particular job categories.
 80. One study found that using the 4/5ths rule often resulted in false-positive ratings of adverse impact, and that incorporating tests of statistical significance could improve the accuracy of applying the 4/5ths rule. See Philip Roth, Philip Bobko, and Fred Switzer, "Modeling the Behavior of the 4/5ths Rule for Determining Adverse Impact: Reasons for Caution," *Journal of Applied Psychology* 91, no. 3 (2006), pp. 507–522.
 81. The results must be realistic. In this example, hiring 2 out of 5 women suggests there is no adverse impact. But suppose we had hired only 1 woman. Then the difference between those we would be expected to hire (5) and whom we actually hired (1) would rise to 4. Hiring just one less woman might then trigger adverse impact issues, because twice the standard deviation is also about 4.

- However, realistically, it probably would not trigger such concerns, because with such small numbers, one person makes such a difference. The point is that tools like the 4/5ths rule and the standard deviation rule are only rules of thumb. They do not themselves determine if the employer's screening process is discriminatory. This fact may work both for and against the employer. As the Uniform Guidelines (www.uniformguidelines.com/qandaprint.html) put it, "Regardless of the amount of difference in selection rates, unlawful discrimination may be present, and may be demonstrated through appropriate evidence. . . ."
82. About the ministry. <https://labor.gov.in>. Accessed on 4 December, 2019.
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 84. See, for example, Michael Carrell and Everett Mann, "Defining Work-Force Diversity in Public Sector Organizations," *Public Personnel Management* 24, no. 1 (Spring 1995), pp. 99–111; Richard Koonce, "Redefining Diversity," *Training and Development Journal*, December 2001, pp. 22–33; and Kathryn Canas and Harris Sondak, *Opportunities and Challenges of Workplace Diversity* (Upper Saddle River, NJ: Pearson, 2008), pp. 3–27. Others list race and ethnicity diversity, gender diversity, age diversity, disability diversity, sexual diversity, and cultural and national origin diversity as examples. Lynn Shore et al., "Diversity in Organizations: Where Are We Now and Where Are We Going?" *Human Resource Management Review* 19 (2009), pp. 117–133.
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 110. Prosecution of former HP India chief to proceed, rules SC, <https://www.livemint.com>. Accessed on 4 December, 2019.
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Human Resource Management Strategy and Analysis

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 3-1** Give examples of each of the seven steps in the strategic management process.
- 3-2** List with examples the main types of strategies.
- 3-3** Define *strategic human resource management*, and give an example of strategic human resource management in practice.
- 3-4** Give at least five examples of HR metrics.
- 3-5** Give a few examples of what employers can do to have high-performance systems.
- 3-6** Explain how you would design a program to improve employee engagement.

When the Ritz-Carlton Company took over the Portman Hotel in Shanghai, China, the hotel already enjoyed a good reputation among business travelers. To stay competitive in a place where new luxury hotels were fast opening up, Portman's new managers decided to reposition the hotel with a new strategy, one that emphasized outstanding customer service. But they knew that improving the service would require new employee behaviors, and therefore new selections, trainings, pay policies and practices. We will see what they did.



WHERE ARE WE NOW . . .

The next part of this book, Part 2, turns to the nuts and bolts of human resource management, including activities like analyzing jobs and recruiting and selecting employees. Ideally, activities like these should produce the employee behaviors and competencies the firm needs to achieve its strategic goals. Therefore, the main purpose of the present chapter is to explain how managers formulate human resource strategies for their companies. We'll address the **Strategic Management Process**, **Types of Strategies**, **Strategic Human Resource Management**, **HR Metrics and Benchmarking**, **High-Performance Work Systems**, and **Employee Engagement**. We'll turn in the following chapter to how to analyze jobs and recruit employees.

LEARNING OBJECTIVE 3-1

Give examples of each of the seven steps in the strategic management process.

The Strategic Management Process

Employers can't intelligently design their human resource policies and practices without understanding the role these policies and practices are to play in achieving their companies' strategic goals. In this chapter, we look at how managers design strategic and human resource plans, and how they evaluate the results of their plans. We start with an overview of the basic management planning process.

The Management Planning Process

The basic management planning process consists of five steps: setting objectives, making basic planning forecasts, reviewing alternative courses of action, evaluating which options are best, and then choosing and implementing your plan. A *plan* shows the course of action for getting from where you are to the goal. *Planning* is always "goal-directed" (such as, "double sales revenue to ₹16 million in fiscal year 2020").

In companies, it is traditional to view the goals from the top of the firm down to front-line employees as a chain or *hierarchy of goals*. Figure 3-1 illustrates this. At the top, the president sets long-term or "strategic" goals (such as "double sales revenue to ₹16 million in fiscal year 2020"). His or her vice presidents then set goals for their units that flow from, and make sense in terms of accomplishing, the president's goal (see Figure 3-1). Then their own subordinates set goals, and so on down the chain.¹

Policies and procedures provide day-to-day guidance employees need to do their jobs in a manner that is consistent with the company's plans and goals. Policies set broad guidelines delineating how employees should act. For example, "It is the policy of this company to comply with all laws, regulations, and principles of ethical conduct." *Procedures* spell out what to do if a specific situation arises. For example:

Any employee who believes this policy has been violated must report this belief to the employee's immediate supervisor. If that is not practical,

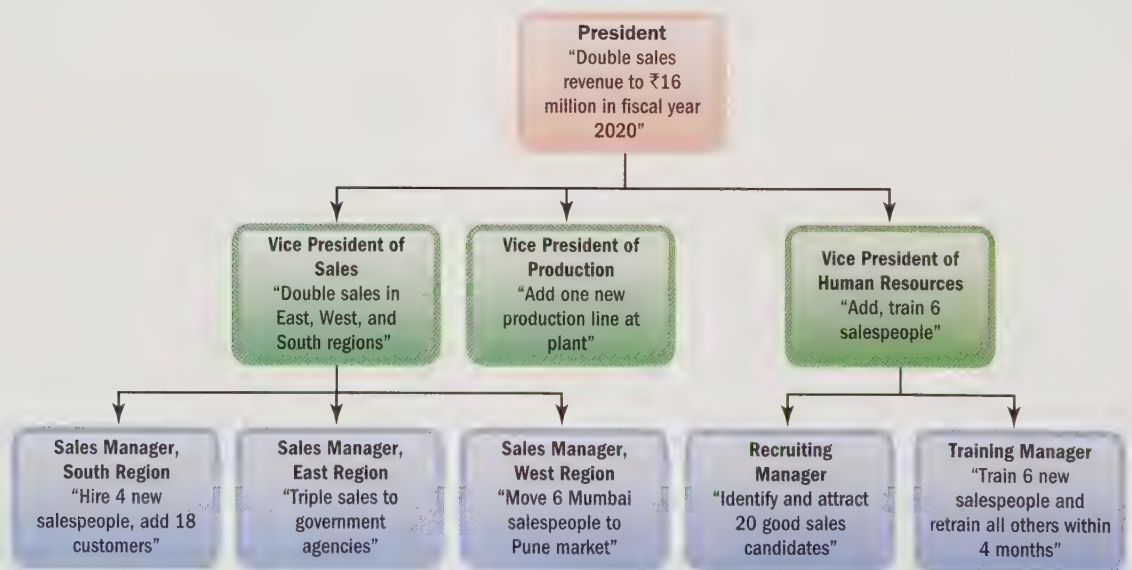


FIGURE 3-1 Sample Hierarchy of Goals Diagram for a Company

the employee should file a written report with the Director of Human Resources. There is to be no retaliation in any form.²

Employers write their own policies and procedures, or adapt ones from existing sources (or both). For example, most employers have employee manuals listing the company's human resource policies and procedures. An online search for prepackaged HR policies manuals would produce choices (for instance go to www.bizmanualz.com/, and then click HR Policies and Procedures Manual).³



strategic plan

The company's plan for how it will match its internal strengths and weaknesses with external opportunities and threats in order to maintain a competitive advantage.

strategy

A course of action the company can pursue to achieve its strategic aims.

strategic management

The process of identifying and executing the organization's strategic plan by matching the company's capabilities with the demands of its environment.



What Is Strategic Planning?

Setting goals for the company usually starts at the top, by formulating an overall strategic plan for the company. A **strategic plan** is the company's overall plan for how it will match its internal strengths and weaknesses with its external opportunities and threats in order to maintain a competitive position. The strategic planner asks, "Where are we now as a business, and where do we want to be?" He or she then formulates a strategic plan to help guide the company to the desired end point.⁴ When Walmart bought Flipkart, the Indian e-commerce firm to expand online presence in India, and WeWork branched out into renting entire facilities to companies like IBM, they were engaged in strategic planning.

A **strategy** is a course of action. Both PepsiCo and Coca-Cola face the same basic problem—people are drinking fewer sugared drinks. However, they each chose different strategies to deal with this. PepsiCo *diversified* by selling more food items like chips. Coca-Cola *concentrated* on sweet beverages, and on boosting advertising to (hopefully) boost Coke sales.⁵

Finally, **strategic management** is the process of identifying and executing the organization's strategic plan by matching the company's capabilities (strengths and weaknesses) with the demands of its environment (its competitors, customers, and suppliers, for instance).

The Strategic Management Process

Figure 3-2 summarizes the strategic management process. Its seven steps include (1) ask, "What business are we in now?"; (2) evaluate the firm's internal and external strengths, weaknesses, opportunities, and threats; (3) formulate a new business direction; (4) decide on strategic goals; and (5) choose specific strategies or courses of action. Steps (6) and (7) are to implement and then evaluate the strategic plan.

The strategic management process begins (step 1) by asking, "What business are we in?" Here the manager defines the company's current business. Specifically, "What products do we sell, where do we sell them, and how do our products or services differ from our competitors?" For example, the Coca-Cola Company sells mostly sweetened beverages such as Coke and Sprite, while PepsiCo sells drinks but also foods such as Quaker Oats and Frito chips.

The second step is to ask, "*Are we in the right business* given our strengths and weaknesses and the challenges that we face?" To answer this, managers "audit" or study both the firm's environment and the firm's internal strengths and weaknesses. The *environmental scan worksheet* in Figure 3-3 is a guide for compiling information about the company's environment. As you can see, this includes the economic, competitive, and political trends that may affect the company. The *SWOT chart* in Figure 3-4 is widely used. Managers use it to compile and organize the

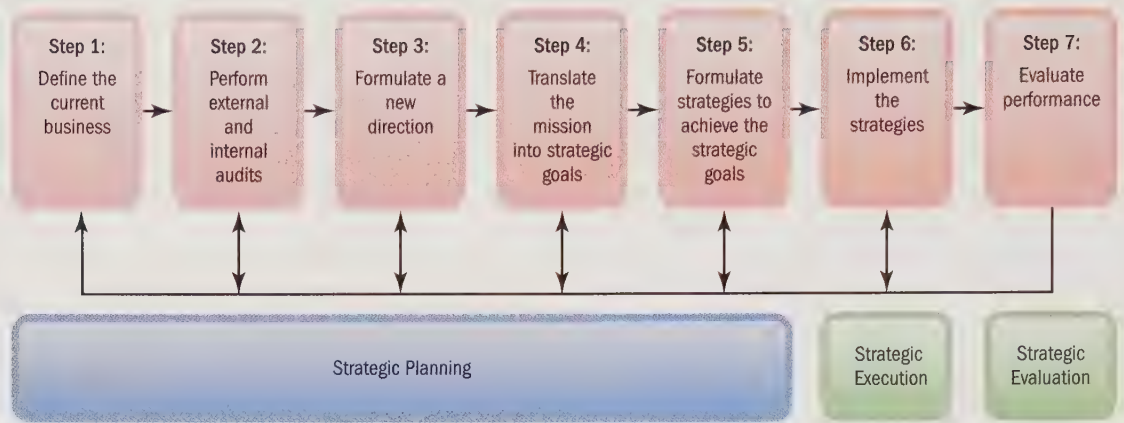


FIGURE 3-2 The Strategic Management Process

FIGURE 3-3 Worksheet
for Environmental
Scanning

Economic Trends
(such as recession, inflation, employment, monetary policies)

Competitive and Market Trends
(such as market/customer trends, entry/exit of competitors, new products from competitors)

Political Trends
(such as legislation, election results and regulation/deregulation)

Technological Trends
(such as introduction of new production/distribution technologies, rate of product obsolescence, trends in availability of supplies and raw materials)

Social Trends
(such as demographic trends, mobility, education, evolving values)

Geographic Trends
(such as opening/closing of new markets, factors affecting current plant/office facilities location decisions)

company's strengths, weaknesses, opportunities, and threats. This audit may also include analyzing the so-called PEST factors. These include Political factors such as government regulations and employment laws; Economic factors including unemployment and economic growth; Social factors such as changing demographics and health consciousness trends; and Technological factors such as social media, digitalization, and self-driving vehicles. In any case, the manager's aim is to create a strategic plan that makes sense in terms of the company's strengths, weaknesses, opportunities, and threats.

Next, based on this analysis (in other words, on the environmental scan, SWOT, and PEST analyses), the task in step 3 will be to decide *what should our new business be*, in terms of what we sell, where we will sell it, and how our products or services differ from competitors' products and services? Some

FIGURE 3-4 SWOT Matrix, with Generic Examples

Potential Strengths	Potential Opportunities
• Market leadership • Strong research and development • High-quality products • Cost advantages • Patents	• New overseas markets • Failing trade barriers • Competitors failing • Diversification • Economy rebounding
Potential Weaknesses	Potential Threats
• Large inventories • Excess capacity for market • Management turnover • Weak market image • Lack of management depth	• Market saturation • Threat of takeover • Low-cost foreign competition • Slower market growth • Changing government regulation

vision statement

A general statement of the firm's intended direction; it shows, in broad terms, "what we want to become."

mission statement

Summarizes the answer to the question, "What business are we in?"

managers express the essence of their new business with a *vision statement*. A **vision statement** is a general statement of the firm's intended direction; it shows, in broad terms, "what we want to become."⁶ For example, PepsiCo's vision is to pursue performance within a framework of socially responsible purposes. Because of this, PepsiCo CEO Indra Nooyi and her executives choose which businesses to be in based on that vision's focus on human sustainability, environmental sustainability, and talent sustainability.⁷ For example, that vision prompted PepsiCo to add the healthy Quaker Oats and Gatorade to its lineup of products.

Whereas the vision statement describes in broad terms what the business should be, the company's **mission statement** summarizes what the company's main tasks are today. Several years ago, Ford adopted what was for several years a powerful Ford mission statement—making "Quality Job One."

In any case, the next step (step 4) is to translate the desired new direction into *strategic goals*. At Ford, for example, what exactly did making "Quality Job One" mean for each department in terms of how they would boost quality? The answer was laid out in goals such as "no more than 1 initial defect per 10,000 cars."

Next, (step 5) the manager *chooses strategies*—courses of action—that will enable the company to achieve its strategic goals. For example, how should Ford pursue its goal of no more than 1 initial defect per 10,000 cars? Perhaps open two new high-tech plants, and put in place new, rigorous employee selection, training, and performance-appraisal procedures.

Step 6, *strategy execution*, means translating the strategies into action. This means actually hiring (or firing) people, building (or closing) plants, and adding (or eliminating) products and product lines.

Finally, in step 7, the manager *evaluates* the results of his or her planning and execution. Things don't always turn out as planned. All managers should periodically assess the progress of their strategic decisions.

LEARNING OBJECTIVE 3-2

List with examples the main types of strategies.

Types of Strategies

In practice, managers engage in three types or levels of strategic planning, *corporate-level* strategic planning, *business unit* (or *competitive*) strategic planning, and *functional* (or *departmental*) strategic planning (see Figure 3-5).

corporate-level strategy

Type of strategy that identifies the portfolio of businesses that, in total, comprise the company and the ways in which these businesses relate to each other.

Corporate Strategy

For any business, the corporate strategy answers the question, “What businesses will we be in?” Specifically, the **corporate-level strategy** identifies the portfolio of businesses that, in total, comprise the company and how these businesses relate to each other. For example, with a *concentration* (single-business) corporate strategy, the company offers one product or product



FIGURE 3-5 Type of Strategy at Each Company Level

line, usually in one market. WD-40 Company is one example. With one spray lubricant, its product scope is narrow. A *diversification* corporate strategy means the firm will expand by adding new product lines. Here product scope is wider. PepsiCo is diversified. Thus, PepsiCo added Frito-Lay chips and Quaker Oats to its drinks businesses. Here, the product scope is wider. Similarly, milk cooperative company, Gujarat Cooperative Milk Marketing Federation Limited (GCMMF), which is the producer of popular Amul branded products, has diversified its product range. Amul has added various new products to its portfolio. Today, GCMMF sells products including milk, the famous AMUL butter, chocolates, sweets, milk-based drinks, cheese, and other foods like pizza and bread.⁸

A *vertical integration* strategy means the firm expands by, perhaps, producing its own raw materials, or selling its products directly. Thus, Apple opened its own Apple stores and oil refining companies like BPCL and IOCL opened company operated outlets. With a *consolidation* strategy, the company reduces its size. With *geographic expansion*, the company grows by entering new territorial markets, for instance, by taking the business abroad.

Competitive Strategy

Once the manager decides what businesses to be in, each business needs a basis on which to compete. For example, within PepsiCo, each of its businesses (such as Pepsi and Frito-Lay) should have a *business-level/competitive strategy* (again, see Figure 3-5). The **competitive strategy** identifies how to build and strengthen the business's competitive position in the marketplace.⁹ It answers the question, for instance, How should Croma compete with Reliance Digital? How should Bank of Baroda compete with SBI?

Managers build their competitive strategies around their businesses' competitive advantages. **Competitive advantage** means any factors that allow a company to differentiate its product or service from those of its competitors to increase market share. Coca-Cola has a "secret formula" that shows how to create its famous beverage. However, competitive advantages needn't be tangible. For example, here is how a former vice president of human resources at the Toyota Motor Manufacturing facility in Georgetown, Kentucky, described the importance of human capital as a competitive advantage:

People are behind our success. Machines don't have new ideas, solve problems, or grasp opportunities. Only people who are involved in thinking can make a difference. . . . Every auto plant in the United States has basically the same machinery. But how people are utilized and involved varies widely from one company to another. The workforce gives any company its true competitive edge.¹⁰

Managers typically adopt one or more of three standard competitive strategies—cost leadership, differentiation, or focus—to achieve competitive advantage. *Cost leadership* means becoming the low-cost leader in an industry; Walmart is an example. With *differentiation*, the firm seeks to be unique in its industry along dimensions that are widely valued by buyers.¹¹ Thus, Volvo stresses its cars' safety, and Artisan Pizza stresses fresh ingredients. Indian budget carrier Indigo, stresses on on time performance while Vistara, the full service carrier focuses on its three class configuration and high level service. *Focusers* carve out a market niche. Thus, Fabindia sells products made by "traditional techniques, skills and hand made processess" and hence their products are "natural, craft based, contemporary, and affordable".¹² Jopwell.com in the U.S. market is "The leading career advancement platform for Black, Latinx, and Native American students and professionals."¹³

Functional Strategy

Each department should operate within the framework of its business's competitive strategy. **Functional strategies** identify what each department must do to help the business accomplish its strategic goals. Thus, for, say, P&G to make its Olay skincare products a top-tier brand, its product development, production, marketing, sales, and human resource departments must engage in activities that are consistent with this unit's high-quality mission.¹⁴ Inferior products, cheap packaging, or sloppy salespeople would not do.

competitive strategy

A strategy that identifies how to build and strengthen the business's long-term competitive position in the marketplace.

competitive advantage

Any factors that allow an organization to differentiate its product or service from those of its competitors to increase market share.

Managers' Roles in Strategic Planning

Devising the company's overall strategic plan is top management's responsibility. However, few top executives formulate strategic plans without lower-level managers' input. No one knows more about the firm's competitive pressures, product and industry trends, and employee capabilities than do the company's department managers.

For example, the human resource manager is in a good position to supply "competitive intelligence"—information on competitors. Details regarding competitors' incentive plans, employee opinion surveys about customer complaints, and information about pending legislation such as labor laws are examples. Human resource managers should also be the masters of information about their own firms' employees' strengths and weaknesses.

In practice, devising the firm's overall strategic plan involves frequent discussions among and between top and lower-level managers. The top managers then use this information to hammer out their strategic plan.



LEARNING OBJECTIVE 3-3

Define *strategic human resource management*, and give an example of strategic human resource management in practice.

Strategic Human Resource Management

The company's top managers choose overall corporate strategies, and then choose competitive strategies for each of the company's businesses. Then departmental managers within each of these businesses formulate functional strategies for their departments. Their aim should be to have functional strategies that will support the competitive strategy and the company-wide strategic aims. The marketing department would have marketing strategies. The production department would have production strategies. The human resource management ("HR") department would have *human resource management strategies*.

HR in Action at the Hotel Paris Starting as a single hotel in a Paris suburb in 1995, the Hotel Paris is now a chain of nine hotels, with two in France, one each in London and Rome, and others in New York, Miami, Washington, Chicago, and Los Angeles. To see how managers use strategic human resource management to improve performance, see the Hotel Paris Case on pages 92–93 and answer the questions.

strategic human resource management

Formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

What Is Strategic Human Resource Management?

Every company's human resource management policies and activities should make sense in terms of the firm's strategic aims. For example, a luxury hotel like the Taj Mahal Palace Hotel, Mumbai or ITC Grand Chola in Chennai will have different employee selection, training and pay policies compared with that the Ginger Hotel Chain follows. Similarly, the HR policies of Maruti and Nexa showrooms are different, though both sell products manufactured by the same company Maruti Suzuki India Limited (MSIL). **Strategic human resource management** means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims. The following Strategic Context feature illustrates this.

The basic idea of strategic human resource management is this: In formulating human resource management policies and activities, the manager should formulate policies that produce the employee skills and behaviors that the company needs to achieve its strategic goals.¹⁵

The HR strategy is dynamic, not static. In other words, the manager should determine where each HR activity (recruiting, and so on) is now, and

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Recruitment at HDFC Bank in India

HDFC Bank (estd. 1994) is a leading financial institution in India. As of March 2019, the bank has 5103 branches located in 2748 cities and has consistently won best performing bank awards. (reference 3.1 here) Its business philosophy is based on four core values: operational excellence, customer focus, product leadership and people. The bank is considered as an organization with progressive HR policies, while it leads on digital technology front, including introduction of India's first humanoid robot in its branches.

HDFC Bank selectively recruits talent from the business schools, while keeping away from top tier schools like the Indian Institute of Management (IIMs). IIM graduates with professional experience are recruited directly for lateral positions. Hiring is taken seriously with extensive reference checking. For senior-levels leaders, the bank has entered into an agreement with the Indian Institute of Management Ahmedabad (IIMA) for leadership training.

The bank's management protects its cultural uniqueness, and these factors have made it a preferred employer. Emphasis is given to employee participation in decision-making and celebration of success. At present, the bank is focusing on digitization and efficiency improvement, and aligning its processes accordingly and altering the HR architecture, including redeploying people and not hiring against positions that were vacant because of regular attrition.¹⁶

where it should be in order to support the employer's strategic aims. The key to success is to think through how the manager is going to transform the various HR activities so that they align with and support the company's strategic priorities.¹⁷ The bottom line is that the manager should not design any HR activities without understanding very clearly the business's strategic needs, and how to align the HR activities with those strategic needs.

Figure 3-6 outlines this idea. First, the manager formulates *strategic plans* and goals. Next, he or she asks, "What *employee skills and behaviors* will we need to achieve these plans and goals?" And finally, he or she asks, "Specifically what recruitment, selection, training, and other *HR policies and practices* should we put in place so as to produce the required employee skills and behaviors?" Managers often refer to their specific HR policies and practices as *human resource strategies*.¹⁸ The accompanying HR as a Profit Center feature presents another strategic human resource management example.



FIGURE 3-6 The HR Strategy Model

Note: This figure opens each chapter of this book and says this: The company's HR policies and practices should produce the employee competencies and behaviors that the company needs to achieve its strategic goals.

■ IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

The Zappos "WOW" Way

When your strategy involves selling shoes and clothes online to people who can't try them on, you need employees who are energized and enjoy what they're doing—Zappos (part of Amazon) wants employees to deliver "WOW" through service.¹⁹ That's why Zappos' founders knew they needed special methods for hiring, developing, and retaining employees, and that's just what they created. As their Web site says, "This ain't your mama's HR! Recruiting, benefits, and employee relations keep this cruise ship afloat with fun, inventive ways of getting employees motivated and educated about the Zappos Family of companies, their benefits, and the other fun stuff going on around here!"²⁰

While they may not appeal to everyone, these "fun, inventive techniques" include interviewing job applicants in what looks like the set of a talk show,



asking employees to submit their own designs for Steve Madden shoes, and (during Zappos' annual "Bald & Blue Day") having some employees volunteer to shave their heads or dye their hair blue.²¹ And, if you're not happy working at Zappos, the company will pay you to leave—it wants no one there who doesn't truly want to be there. Zappos also believes in what it calls "Holacracy," namely encouraging every employee to be innovative.²²

Again, that may not be for everyone, but it works for Zappos. It knows that selling online profitably requires energized employees who really enjoy what they're doing. Management uses these special HR practices to cultivate the energized and fun environment that Zappos needs to execute its strategy, and judging from Zappos' success they seem to be working. ■

Sustainability and Strategic Human Resource Management

Today's emphasis on *sustainability* has important consequences for human resource management. *Strategic human resource management* means having human resource policies and practices that produce the employee skills and behaviors that are necessary to achieve the company's strategic goals, and these often include sustainability goals.

For example, PepsiCo wants to deliver "Performance with Purpose." This means achieving financial performance while also achieving human sustainability, environmental sustainability, and talent sustainability.²³ PepsiCo's human resource managers can help the company achieve these goals.²⁴ For example, they can use workforce planning techniques to decide about how many and what type of environmentally sustainable jobs the company has to recruit for, and can work with top management to institute *flexible work arrangements* that help sustain the environment by reducing commuting. The

employee orientation and performance management processes can be modified to focus on PepsiCo's sustainability requirements. They can use *incentive systems* to motivate employees to achieve PepsiCo's sustainability goals.²⁵ The bottom line is that HR policies and practices can support a firm's sustainability strategy and goals.

Strategic Human Resource Management Tools

Managers use several tools to translate the company's strategic goals into human resource management policies and practices. These tools include the strategy map, the HR scorecard, and the digital dashboard.

strategy map

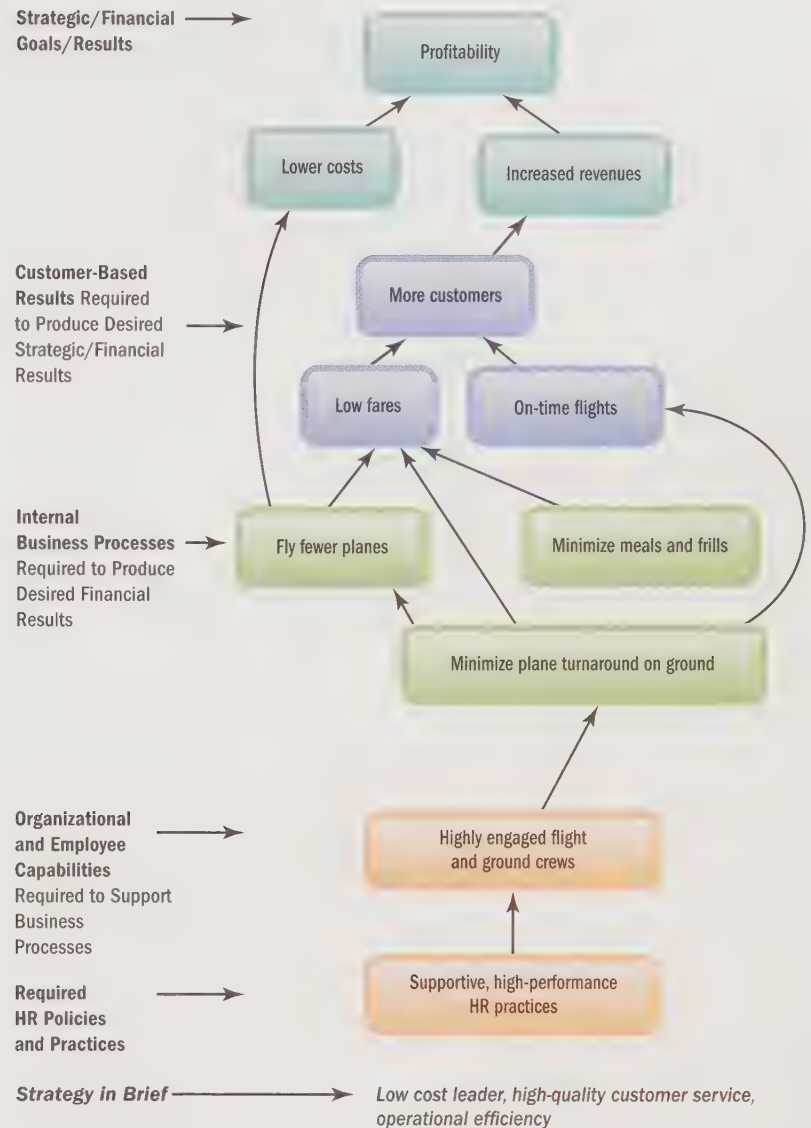
A strategic planning tool that shows the "big picture" of how each department's performance contributes to achieving the company's overall strategic goals.

STRATEGY MAP The **strategy map** summarizes how each department's performance contributes to achieving the company's overall strategic goals. It helps the manager and each employee visualize and understand the role his or her department plays in achieving the company's strategic plan. Management gurus sometimes say that the map clarifies employees' "line of sight." It does this by visually linking their efforts with the company's ultimate goals.²⁶

Figure 3-7 presents a strategy-map example for Southwest Airlines. The top-level target is to achieve its profitability, costs, and revenue goals. Then the strategy map shows the chain of activities that help Southwest Airlines achieve these goals. Like Walmart, Southwest has a low-cost-leader strategy. Other

FIGURE 3-7 Strategy Map for Southwest Airlines

Source: Based on TeamCHRYSLIS.com, accessed July 2006; http://mcknightkaney.com/Strategy_Maps_Primer.html; www.strategymap.com.au/home/StrategyMapOverview.html.



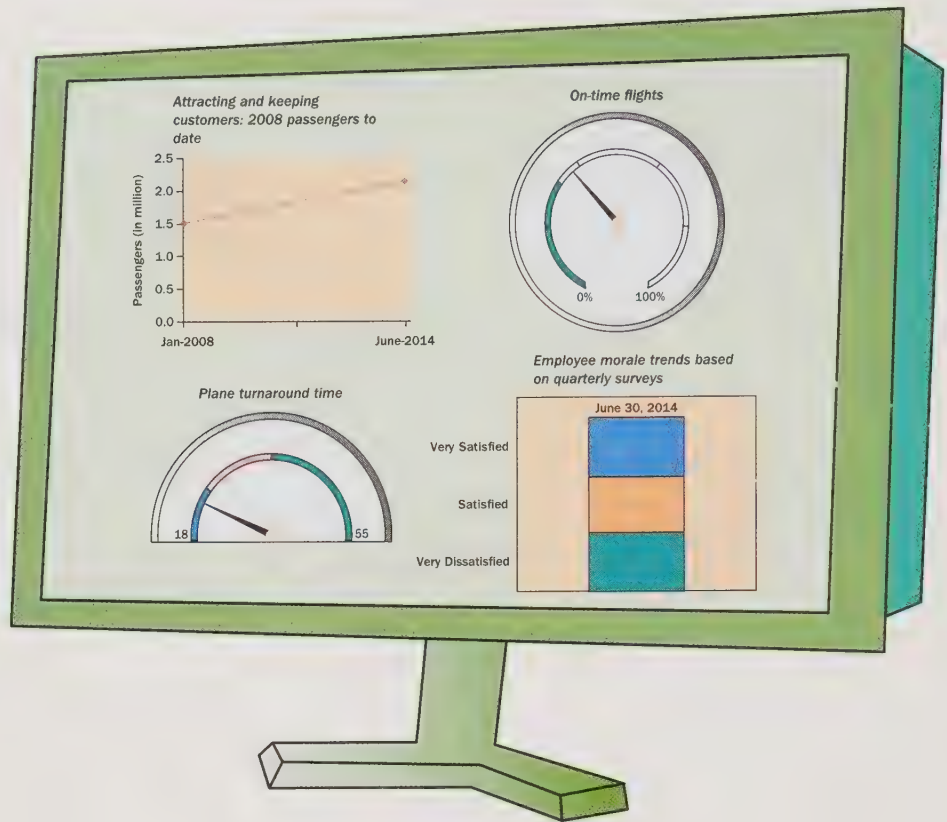
examples can be Indian hotel chain Ginger or budget airline Indigo or Spice Jet. So, for example, to boost revenues and profitability Southwest must fly fewer planes (to keep costs down), maintain low prices, and maintain on-time flights. In turn (further down the strategy map), on-time flights and low prices require fast turnaround. This, in turn, requires motivated ground and flight crews. The resulting strategy map helps each department understand what it needs to do to support Southwest's low-cost strategy.²⁷ For example, what steps must Southwest's human resource team take to boost the motivation and dedication of its ground crews? A similar strategy map can be drawn for Indian low-cost airline, Indigo, and the full service airline, Vistara. We will find that the strategy map will be different in both the cases.

HR scorecard

A process for assigning financial and nonfinancial goals or metrics to the human resource management-related chain of activities required for achieving the company's strategic aims and for monitoring results.

THE HR SCORECARD Many employers quantify and computerize the strategy map's activities. The HR scorecard helps them to do so. The **HR scorecard**

A digital dashboard presents the manager with desktop graphs and charts, showing a computerized picture of how the company is doing on all the metrics from the HR scorecard process.



digital dashboard

Presents the manager with desktop graphs and charts, and shows a computerized picture of where the company stands on all those metrics from the HR scorecard process.

is not a scorecard. It refers to a process for assigning financial and nonfinancial goals or metrics to the human resource management-related strategy-map chain of activities required for achieving the company's strategic aims.²⁸ (Metrics for Southwest as well as Indian airline companies Indigo or Vistara might include airplane turnaround time, percent of on-time flights, and ground crew productivity.) The idea is to take the strategy map and to quantify it.

Managers use special scorecard software to facilitate this. The computerized scorecard process helps the manager quantify the relationships between (1) the HR activities (amount of testing, training, and so forth), (2) the resulting employee behaviors (customer service, for instance), and (3) the resulting firm-wide strategic outcomes and performance (such as customer satisfaction and profitability).²⁹ The HR scorecard derives from the "balanced scorecard" planning approach, which aims to balance hard data such as financial measures with soft data such as customer satisfaction in assessing a company's performance.

HRD Scorecard Developed by TVRLS, India

The concept of HRD (Human Resource Development) scorecard was introduced in India by consultant and former IIM Ahmedabad faculty, Professor T. V. Rao. The concept was popularised through T. V. Rao Learning Systems (www.tvrls.com), which organized training programs and communication exercises to that effect. The author uses the term HRD to signify the people-development orientation of organizations, a concept pioneered in India by himself and Professor Udai Pareek, based on the work done in L&T Limited in 1974.

HRD Scorecard is an indicator of the level of HR maturity of an organization and its alignment with organizations' strategy. The model is based on the

assumption that competent and motivated employees are needed to provide quality products and services at competitive rates and ways that enhance customer satisfaction. In the HRD scorecard, the maturity level of HRD in an organization is measured on four dimensions on a ten-point scale (10 represents the highest maturity level, 5 represents a moderate maturity level, and 1 represents the least level of maturity). Four indicators, as described below are used to arrive at a comprehensive score for HRD maturity.

(a) **HRD Systems Maturity Score:** Employee competencies and commitment can be developed through appropriate HRD mechanisms (tools and systems). In an HRD mature organization, there will be well-developed HRD systems (listed below).

- Human resource planning and recruitment
- Performance Management Systems
- Feedback and Coaching Mechanisms
- Training
- Career Development and Succession planning
- Job-rotation
- OD Interventions
- HR Information Systems (HRIS)
- Worker Development Methods and Systems
- HR Information System
- Potential Appraisal and Development
- Other subsystems if any

(b) **HRD Competence Score:** HRD competencies of the HRD department and the line managers play a significant role in implementing the systems and processes in ways that could ensure employee satisfaction, competence building and customer satisfaction. For this section of the scorecard, the competencies of the staff from different groups (HRD department, Top Management, Line Managers and Supervisors, Trade Union Leaders and Blue/White Collar employees) are measured. Each group is assessed based on the following dimensions:

- The level of HRD skills they possess.
- Attitudes and support to learning and their own development.
- The extent to which they facilitate learning among others in the corporation and those who work with them.
- Their attitudes and support to HRD function and systems.

(c) **The HRD Culture:** This measures the values and processes created by the HRD tools. Employees and their styles also play a crucial role in building sustainable competencies in the organization. These need to be measured and monitored. It is possible for some organizations to have a minimal formal HR systems and yet have a high level of HR competencies and HR culture. Specialized questionnaires have been developed for the measurement of HRD culture for such organizations.

(d) **Business Linkage Score:** HRD systems, competencies and the culture must be aligned with the business goals of the corporation. This score indicates the extent to which HRD efforts (tools, processes, culture, etc.) are driven to achieve business goals or goals of the organization. The business linkage goals include:

- Business Excellence including profitability and other outcomes the organization is expected to achieve.

- Internal operational efficiencies.
- Internal Customer satisfaction.
- External Customer satisfaction.
- Employee motivation and Commitment.
- Cost-effectiveness and cost-consciousness among employees.
- Quality orientation.
- Technology adoption.

The above four indices are the four pillars of HRD maturity of the organization. All four dimensions are scored using a ten-point rating system.

A*	Highest Score and Highest Maturity Level
A	Very High Maturity level
B*	High Maturity Level
B	Moderately High Maturity Level
C*	Moderate Maturity Level
C	Moderately low Maturity level
D*	Low Maturity Level
D	Very low Maturity level
F	Not at all present
U	Ungraded

Measurement is done by trained assessors. Some multi-unit/locational companies have developed pool of internal assessors who peer rate different units or locations. A comprehensive score is also prepared for the company.

Sample HRD Score Card

Name of the Organization

HRD systems Maturity Grade	HRD Competence Score
F	D*

XYZ

HRD Culture Grade	Business Linkage Grade	Overall HRD Maturity rating
F	D*	FD*CD*

Source: Adapted from www.hrdaudit.org/hrdscorecard.htm and www.tvrls.com accessed on February 15, 2010.

DIGITAL DASHBOARDS The saying “a picture is worth a thousand words” explains the purpose of the digital dashboard. A **digital dashboard** presents the manager with desktop graphs and charts, showing a computerized picture of how the company is doing on all the metrics from the HR scorecard process. As in the illustration, a top Airlines manager’s dashboard might display real-time trends for various strategy-map activities, such as fast turnarounds and on-time flights. This enables the manager to take corrective action. For example, if ground crews are turning planes around slower today, financial results tomorrow may decline unless the manager takes action.

Figure 3-8 summarizes the three strategic planning tools.



FIGURE 3-8 Three Important Strategic HR Tools



LEARNING OBJECTIVE 3-4

Give at least five examples of HR metrics.

human resource metrics

The quantitative gauge of a human resource management activity, such as employee turnover, hours of training per employee, or qualified applicants per position.

HR Metrics, Benchmarking, and Data Analytics

We've seen that strategic human resource management means formulating HR policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic goals. Being able to measure results is essential to this process. For example, it would have been futile for the HDFC Bank's managers to set "better customer service" as a goal if they couldn't measure customer service.³⁰ Relevant measures might include, for instance, hours of training per employee, productivity per employee, and (via customer surveys) customer satisfaction.

Human resource managers use many such measures (or "human resource metrics"). For example, there is (on average) one human resource employee per 100 company employees for firms with 100–249 employees. This HR employee-to-employee ratio drops to about 0.79 for firms with 1,000–2,499 employees and to 0.72 for firms with more than 7,500 employees.³¹ Figure 3-9 illustrates other human resource management metrics. They include employee tenure, cost per hire, and annual overall turnover rate.³²

CII HR Excellence Model

The Confederation of Indian Industry (CII) runs the annual "HR Excellence Award", a program which extensively uses HR Audit as the methodology. The objective of the model is to help Indian organizations improve HRM processes and become globally competitive. Participating companies submit a detailed Application document (self-audit) according to the CII HR Excellence 6 Box Model criteria, with total of 1000 points. The six criteria involved are:

- (a) Leadership
- (b) Human Resource Strategy
- (c) Learning and Development
- (d) People Wellbeing and Employee Engagement
- (e) HRM Processes
- (f) Business Results

The evaluation of each criterion is done based on the RADAR framework (Results, Achievement, Deployment, Assessment & Refinement), which point to not only the outcomes, but the approach taken by the organization. Organizations are assessed by trained peer assessors and participating organizations do not compete with each other.

Based on the scores, four categories of awards are given:

- (a) Role Model Organization
- (b) Leadership in HR Excellence
- (c) Significant Achievement in HR Excellence
- (d) Strong Commitment to HR Excellence

All participating firms are provided with a detailed Assessment Report which enables them to improve their HRM framework through gap identification, root cause analysis and action. Some of the companies that participated in the exercise are Amara Raja Batteries, Tata Steel, J K Cements, Tech Mahindra, Cadila Healthcare Limited, JSW Steel, VS Commercial Vehicles Limited, Aditya Birla Finance Ltd., etc.

Source: Csuite (2010), Where Excellence is a Way of Life, Peoplematters, <https://www.peoplematters.in>. Accessed on 3 December, 2019.

Organizational Data

- Revenue
- Revenue per FTE
- Net Income Before Taxes
- Net Income Before Taxes per FTE
- Positions Included Within the Organization's Succession Plan

HR Department Data

- Total HR Staff
- HR-to-Employee Ratio
- Percentage of HR Staff in Supervisory Roles
- Percentage of HR Staff in Professional/Technical Roles
- Percentage of HR Staff in Administrative Support Roles
- Reporting Structure for the Head of HR
- Types of HR Positions Organizations Expect to Hire in this year

HR Expense Data

- HR Expenses
- HR Expense to Operating Expense Ratio
- HR Expense to FTE Ratio

Compensation Data

- Annual Salary Increase
- Salaries as a Percentage of Operating Expense
- Target Bonus for Non-Executives
- Target Bonus for Executives

Tuition/Education Data

- Maximum Reimbursement Allowed for Tuition/Education Expenses per Year
- Percentage of Employees Participating in Tuition/Education Reimbursement Programs

Employment Data

- Number of Positions Filled
- Time-to-Fill
- Cost-Per-Hire
- Employee Tenure
- Annual Overall Turnover Rate
- Annual Voluntary Turnover Rate
- Annual Involuntary Turnover Rate

Expectations for Revenue and Organizational Hiring

- Percentage of Organizations Expecting Changes in Revenue in Current Year Compared with Previous Year
- Percentage of Organizations Expecting Changes in Hiring in Current Year Compared with Previous Year

Metrics for More Profitable Organizations

- Total HR Staff
- HR-to-Employee Ratio
- HR Expenses
- HR Expense to Operating Expense Ratio
- HR Expense to FTE Ratio
- Annual Salary Increase
- Target Bonus for Non-Executives
- Target Bonus for Executives
- Maximum Reimbursement Allowed for Tuition/Education Expenses-Per-Year
- Percentage of Employees Participating in Tuition/Education Reimbursement Programs
- Time-to-Fill
- Cost-Per-Hire
- Annual Overall Turnover Rate

FIGURE 3-9 Metrics for the SHRM® 2017 Customized Human Capital Benchmarking Report

Source: Reprinted with permission from the Society for Human Resource Management. All rights reserved.

Benchmarking

Just measuring how one is doing (for instance, in terms of employee productivity) is rarely enough for deciding what (if anything) to change. Instead, most managers want to know “How are we doing?” *in relation to something*. For example, are our accident rates rising or falling? Similarly, the manager may want to *benchmark* the results—compare high-performing companies’ results to your own, to understand what makes them better.³³

In the U.S., the Society for Human Resource Management’s (SHRM’s) benchmarking service enables employers to compare their own HR metrics with those of other companies. The employer can request comparable (benchmark) figures not just by industry, but by employer size, company revenue, and geographic region. (See <http://shrm.org/research/benchmarks/>) Such a comparison system is yet to be freely available in India. Recently, (April 2018) the Department of Public Enterprises under the government of India initiated plans to create a database of best HRM practices in the central public sector undertakings (PSUs). (<https://dpe.gov.in/best-hr-practices-cpses>)

Figure 3-10 illustrates one of the SHRM’s many sets of comparable benchmark measures. It shows how much employers are spending for tuition reimbursement programs.

Strategy-Based Metrics

Benchmarking provides one perspective on how your company’s human resource management system is performing.³⁴ It shows how your human resource management system’s performance compares to the competition. However, it may *not* reveal the extent to which your firm’s HR practices are supporting its strategic goals. Thus, if the strategy calls for doubling profits by improving customer service, to what extent are our new training practices helping to improve customer service?

Managers use *strategy-based metrics* to answer such questions. **Strategy-based metrics** measure the activities that contribute to achieving a company’s strategic aims.³⁵ Thus, for the Taj Hotels, the strategic HR metrics might include 100% employee testing, 80% guest returns, incentive pay as a percent of total salaries, and sales up 50%. If changes in HR practices such as increased training have their intended effects, then strategic metrics like guest returns should also rise.

strategy-based metrics

Metrics that specifically focus on measuring the activities that contribute to achieving a company’s strategic aims.



HR audit

An HR audit is an analysis of the completeness, efficiency, and effectiveness of the organization’s HR functions, including its HR policies, practices, processes, and relevant metrics.

What Are HR Audits?

Human resource managers often collect data on matters like employee turnover and safety via *human resource audits*. An **HR audit** is an analysis of the completeness, efficiency, and effectiveness of the organization’s HR functions, including its HR policies, practices, processes, and relevant metrics.³⁶ This generally involves using a checklist to review the company’s human resource functions (recruiting, testing, training, and so on), as well as ensuring that the firm is adhering to regulations, laws, and company policies. The HR auditor may first review payroll data, focusing on what and when each employee was paid. He or she will then turn to whether the human resource records are in order (for instance, are medical records kept separate from résumés?). He or she will also review the employer’s handbooks and policies, for instance, checking for disability accommodation policies, social media policies, and family and medical leave policies.³⁷

**FIGURE 3-10 SHRM
Customized Human
Capital Benchmarking
Report**

Source: "HR Expense Data," from *SHRM Customized Human Capital Benchmarking Report*. Reprinted with permission from the Society for Human Resource Management. All rights reserved. www.shrm.org/Research/benchmarks/Documents/sample_humncapital_report.pdf.

Tuition/Education Data					
	n	25th Percentile	Median	75th Percentile	Average
Maximum reimbursement allowed for tuition/education expenses per year	32	\$1,000	\$5,000	\$7,500	\$6,000
Percentage of employees participating in tuition/education reimbursement programs	32	1.0%	3.0%	5.0%	4.0%

HR audits vary in scope. Typical areas audited include:³⁸

1. Roles and headcount (including job descriptions, and employees categorized by exempt/nonexempt and full- or part-time)
2. Compliance with central, state, and local employment-related legislation
3. Recruitment and selection (including use of selection tools, background checks, and so on)
4. Compensation (policies, incentives, survey procedures, and so on)
5. Employee relations (union agreements, performance management, disciplinary procedures, employee recognition)
6. Mandated benefits (Social Security like Provident Fund and ESI, pension, insurance, workers' compensation, and so on)
7. Group benefits (insurance, time off, flexible benefits, and so on)
8. Payroll management
9. Documentation and record keeping. For example, do our files include résumés and applications, offer letters, job descriptions, performance evaluations, benefit enrollment forms, payroll change notices, and documentation related to personnel actions such as employee handbook acknowledgments?³⁹
10. Training and development (new employee orientation, development, technical and safety, career planning, and so on)
11. Employee communications (employee handbook, newsletter, recognition programs)
12. Termination and exit policies and practices

Organizations conduct HR audit internally or with help of consultants. Husys, an Indian consulting firm offers such services for small and medium enterprises.⁴⁰ Special training and certification programs for HR Audit are also available in India. This includes the Executive Education Program offered by IIMA.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Data like monthly payroll costs are interesting but relatively useless until converted to information. *Information* is data presented in a form that makes it useful for making decisions. For example, knowing your cost per hire is interesting. However, presenting cost-per-hire data that shows whether the cost is trending up or down provides information you can use to make decisions. Yet in one study, only 10% of respondents said that they use such data to analyze their workplace practices' effectiveness.⁴¹

Data analytics means using statistical and mathematical analysis to find relationships and make predictions. For example, when online bookstores use algorithms to predict which books you're most likely to buy based on things like what books you've already bought and similarities between you and other groups, they are using data analytics.⁴² Data analytics relies on data mining. *Data mining* sifts through huge amounts of employee data to identify correlations that employers then use to improve their employee-selection and other practices. *Data mining* is "the set of activities used to find new, hidden, or unexpected patterns in data."⁴³

Big data is basically data analytics on steroids. The basic idea (of scientifically analyzing data to find relationships and make predictions) is the same. However, with "big data" the volume, velocity, and variety of data that are analyzed are much greater. In terms of *volume*, for example, Walmart now collects about 2.5 petabytes of data—2.5 million gigabytes—*every hour* from its customer transactions.⁴⁴ Similarly, in terms of *velocity*, all these data are being created more or less instantaneously (as at Walmart); that means companies can use them to more quickly adapt in real time (for instance, to who's buying what products, and so how to adjust online promotions). Finally, big data capitalizes on the huge *variety* of data now available. For instance, data come not just from a bank's or supermarket's transactions but from customers' mobile phones, GPS, and social networks too.

Talent Analytics

Data analytics tools like these enable employers to analyze together employee data (like employee demographics, training, and performance ratings) from traditional sources such as employee records, as well as data from new sources (like company internal social media sites, GPS tracking, and e-mail activity).⁴⁵ Employers then use *talent analytics* (data analytics applied to HR issues) to answer questions that in the past they couldn't answer, or couldn't answer as well. For example, HR software ZingHR has an in-built Analytics Engine, which has an inbuilt "analytics engine" that analyzes its client's employee performance and other data. Computer dashboards then enable its clients to answer questions such as "Are there potential turnover trends we should further analyze to head off potential problems?"⁴⁶ "What factors drive our high-performing salespeople?" And, "what sorts of people are most likely to have accidents and submit claims?"

Talent analytics can produce striking profitability results. For example, Best Buy used talent analytics to discover that a 0.1% increase in employee engagement led to a more than \$100,000 rise in a Best Buy store's annual operating income.⁴⁷ A study in India by an analytics company shows that the trend of using talent analytics is catching up in the country, and MNCs are ahead in this than Indian companies. However, the budget allocated by 78% of the companies were less than ₹ 50 lakhs. A 2018 report by LinkedIn points to 77% growth of HR analytics professionals in India.⁴⁸ Employers use talent analytics to answer several types of talent management questions:

- **Human Capital Facts** For example, "What are the key indicators of my organization's overall health?"
- **Analytical HR** For example, "Which units, departments, or individuals need attention?" Lockheed Martin collects performance data in order to identify units needing improvement.

- **Human Capital Investment Analysis** For example, “Which actions have the greatest impact on my business?” By monitoring employee satisfaction levels, Cisco improved its employee retention rate from 65% to 85%, saving the company nearly \$50 million in recruitment, selection, and training costs. A Google talent analytics team analyzed data on employee backgrounds, capabilities, and performance.⁴⁹ It identified factors (such as an employee feeling underutilized) likely to lead to the employee leaving—and thus helped it reduce turnover. Microsoft identified correlations among the schools and companies its employees arrived from and the employees’ subsequent performance. This helped it improve its recruitment and selection practices.⁵⁰ Zing HR, a cloud based HRMS system, provides a recruitment and talent management solution with an inbuilt Analytics Engine. (<https://www.zinghr.com/>)
- According to the company, it helps to optimize recruiter efficiency, cut costs and ensure better talent related decision-making. HRMS-ERP Systems like Oracle and SAP also has inbuilt HR analytics capabilities. ■

Digital tools like talent analytics disrupt how HR departments do things. They require HR managers to be more scientific and analytical. And, they often shift “who does HR” *from* the human resource department *to* other departments (such as finance), and sometimes to line managers like the heads of departments (for instance, Aon Hewitt’s digital dashboard shows line managers when there’s a turnover problem).

Digital tools like these show great promise. In one study, 82% of high-performing organizations gave human resource management leaders such analytical workforce data, compared with 33% of low-performing ones.⁵¹



TRENDS SHAPING HR: SCIENCE IN TALENT MANAGEMENT

Data analytics facilitates making decisions based on a measurable and objective review of the situation. Managers have a name for this. *Evidence-based human resource management* means using data, facts, analytics, scientific rigor, critical evaluation, and critically evaluated research/case studies to support human resource management proposals, decisions, practices, and conclusions.⁵²

You may sense that being evidence-based is similar to being scientific, and if so, you are correct. A *Harvard Business Review* article even argues that managers must become more scientific and “think like scientists” when making business decisions.⁵³

But how can managers think like scientists? Objectivity, experimentation, and prediction are the heart of science. In gathering evidence, scientists (or managers) first need to be *objective*, or there’s no way to trust their conclusions. Recently, a medical school abroad disciplined several professors. They had failed to reveal that they were on the payroll of the drug company that supplied the drugs, the results of which the doctors were studying. Who could trust their objectivity or conclusions?

Being scientific also requires *experimentation*. An experiment is a test one sets up in such a way as to ensure that he or she understands the reasons for the results obtained. For example, in their *Harvard Business Review* article, “A Step-by-Step Guide to Smart Business Experiments,” the authors argue that if you want to judge a new incentive plan’s impact on corporate profits, don’t start by implementing the plan with all employees. Instead, implement it with an “experimental” group (which gets the incentive plan) *and* with a

“control” group (a group that does *not* get the incentive plan). Doing so will help you gauge if any performance improvement stemmed from the incentive or from some other cause (such as a new company-wide training program).⁵⁴ And, it will enable you to *predict* how changing the incentive plan will affect performance.

For managers, the point of being “scientific” is to make better decisions by forcing you to gather the facts. “Is this sales incentive plan really boosting sales?” “We’ve spent \$40,000 in the past 5 years on our tuition-refund plan; what (if anything) did we get out of it?” What’s the evidence?

Successful HR managers need to be scientific today. As an example, the chemical company BASF Corp. used talent analytics to analyze data on the relationship among stress, health, and productivity in its 15,000 U.S. headquarters staff. Based on that analysis, the company instituted health programs that it calculated would more than pay for themselves in increased productivity by reducing stress.⁵⁵

HCL Technologies used talent analytics for improving its hiring process, and to ensure that the hired candidates are made billable resources early. It deployed an intelligent neural network base to analyze data of 5 million candidates using natural language analysis and semantics. The insights collected, according to the company resulted in better quality hires.⁵⁶ A 2018 report by WTW highlights that. Throughout this book we will show examples of how managers use evidence to make better human resource management decisions. For example: Which recruitment source produces our best candidates? Does it pay to use this testing program? And, does our safety program really lead to fewer accidents? ■

LEARNING OBJECTIVE 3-5

Give a few examples of what employers can do to have high-performance systems.

high-performance work system (HPWS)

A set of human resource management policies and practices that promote organizational effectiveness.

High-Performance Work Systems

One reason to measure, benchmark, and scientifically analyze HR practices is to promote high-performance work practices. A **high-performance work system (HPWS)** is a set of human resource management policies and practices that together produce superior employee performance.

What exactly are these high-performance work practices? In one study, researchers collected data from 359 firms before, during, and after the 2007–2009 recession. They found that firms that used more effective staffing and training outperformed competitors before, during, and after the recession.⁵⁷

Another study looked at 17 manufacturing plants, some of which adopted high-performance work system practices. The high-performance plants paid more (median wages of \$16 per hour compared with \$13 per hour for all plants), trained more, used more sophisticated recruitment and hiring practices (tests and validated interviews, for instance), and used more self-managing work teams.⁵⁸ Those with the high-performance HR practices performed significantly better than did those without such practices. Service companies (such as hotels) particularly gain from such high-performance work systems and practices.⁵⁹

A study conducted in Indian context also showed that High performance work systems and productivity are positively linked. A supportive HRD climate was required for higher motivation and organizational commitment.⁶⁰ Another study conducted among SME employees in Colombo, Sri Lanka showed the positive linkage between job satisfaction, organization commitment and HPWs.⁶¹ Studies like these show that high-performance work

systems' policies and practices do differ from less productive ones (Table 3-1). For example, high-performing companies recruit more job candidates, use more selection tests, and spend many more hours training employees. Table 3-1 illustrates three things.

First, it shows examples of *human resource metrics* such as hours of training per employee, or qualified applicants per position. (In Table 3-1, the metric for "Number of qualified applicants per position" is 37 in the high-performing companies.) Managers use these to assess their companies' performance and to compare one firm with another.⁶²

Second, it illustrates *what employers must do* to have high-performance systems. For example, high-performing companies have more than four times the number of qualified applicants per job than do low performers. They also hire based on validated selection tests, and extensively train employees.

TABLE 3-1 Examples Selected from Several Studies of How Recruitment, Selection, Training, Appraisal, Pay, and Other Practices Differ in High-Performance and Low-Performance Companies

	Lower-Performance Companies' HR Practice Averages (e.g., company performance in terms of sales/employee, innovation, and employee retention)*	Higher-Performance Companies' HR Practice Averages (e.g., company performance in terms of sales/employee, innovation, and employee retention)*
Recruitment: Average number of qualified applicants per position	8	37
Selection: Average percentage of employees hired based on a validated <i>selection</i> test	4%	30%
Training: Average number of hours of <i>training</i> for new employees	35 hours	117 hours
Appraisal: Average percentage of employees receiving a regular <i>performance appraisal</i>	41%	95%
Pay Practices: Average percentage of the workforce eligible for <i>incentive pay</i>	28%	84%
Use of Teams: Average percentage of the workforce routinely working in all teams: semiautonomous, cross-functional, or project teams	11%	42%
Self-Directed Teams: Percent of companies with <i>semiautonomous or autonomous</i> work teams	9%	70%
Operational Information Sharing: Employees receive relevant operating performance information	62%	82%
Financial Information Sharing: Employees receive relevant financial performance information	43%	66%

*Findings rounded.

Based on "Comparison of HR Practices in High-Performance and Low-Performance Companies," by B. E. Becker, et al., from *The HR Scorecard: Linking People, Strategy and Performance* (Boston: Harvard Business School Press, 2001); Barry Macy, Gerard Farias, Jean-Francois Rosa, and Curt Moore, "Built to Change: High-Performance Work Systems and Self-Directed Work Teams—A Longitudinal Field Study," *Research in Organizational Change and Development*, 16, pp. 339–418, 2007; James Gathrie, Wenchuan Liu, Patrick Flood, and Sarah MacCurtain, "High Performance Work Systems, Workforce Productivity, and Innovation: A Comparison of MNCs and Indigenous Firms," The Learning, Innovation and Knowledge (LINK) Research Centre Working Paper Series, WP 04-08, 2008. Michael C. Campion, and Malika Masimova, "A High Performance Work Practices Taxonomy: Integrating the Literature and Directing Future Research," *Journal of Management*, 39, no. 5, July 2013, pp. 1184–1220.

Third, Table 3-1 shows that high-performance work practices usually *aspire to encourage employee involvement and self-management*. In other words, an aim of the high-performance recruiting, screening, training, and other human resources practices is to nurture an engaged, involved, informed, empowered, and self-motivated workforce.⁶³

LEARNING OBJECTIVE 3-6

Explain how you would design a program to improve employee engagement.

Employee Engagement Guide for Managers: Employee Engagement and Performance

Employee engagement refers to being psychologically involved in, connected to, and committed to getting one's jobs done. Engaged employees "experience a high level of connectivity with their work tasks," and work hard to accomplish their task-related goals.⁶⁴

Employee engagement is important because it drives performance and productivity. For example, based on a Gallup survey, business units with the highest levels of employee engagement have an 83% chance of performing above the company median; those with the lowest employee engagement have only a 17% chance.⁶⁵ According to one review of the evidence, employee engagement is correlated with employees' customer service productivity, and improvements in employee engagement were associated with significant increases in sales, product quality, productivity, safety incidents at work, retention and absenteeism, and revenue growth.⁶⁶ One consulting firm estimates that a 5% increase in employee engagement correlates to a 0.7% increase in operating margins.⁶⁷ Companies with highly engaged employees are also less likely to be unionized.⁶⁸ In one survey, highly engaged employees lost only about 7.5 days of productivity per year, compared to about 14 days for disengaged employees.⁶⁹ A survey by consultants Watson Wyatt Worldwide concluded that companies with highly engaged employees have 26% higher revenue per employee.⁷⁰

The Employee Engagement Problem

The problem is that, depending on the study, only about 21–30% of employees nationally are engaged.⁷¹ Gallup distinguishes among engaged employees "who work with passion and feel a profound connection to their company," not-engaged employees who are essentially "checked out," and actively disengaged employees. The latter "act out their unhappiness" by undermining what their engaged coworkers are accomplishing.⁷² Gallup found that about 30% of employees were engaged, 50% were not engaged, and 20% were actively disengaged.

What Can Managers Do to Improve Employee Engagement?

Managers improve employee engagement by taking concrete steps to do so. We'll look more closely at how they do this in a moment, but one important activity is *providing supportive supervision*. For example, a Gallup survey found that managers who focus their support and coaching on their employees' strengths can "practically eliminate active disengagement"; conversely, "bosses from hell" kill employee engagement.⁷³ Other steps managers can take to foster engagement include making sure employees (1) *understand*

how their departments contribute to the company's success, (2) *see how their efforts contribute* to achieving the company's goals, (3) get a *sense of accomplishment* from working at the firm,⁷⁴ and (4) are highly *involved*—as when working in self-managing teams.⁷⁵ Employers should also *hold managers responsible* for employee engagement. For example, WD-40 Company has its managers meet periodically with their employees to discuss how to improve employee engagement.⁷⁶

How to Measure Employee Engagement

Firms like Gallup (www.gallup.com), and Towers Watson (go to www.towerswatson.com/en-U.S., then click Solutions, and then Surveys) offer comprehensive employee engagement survey services. However, monitoring employee engagement needn't be complicated. With about 180,000 employees worldwide, the consulting firm Accenture uses a three-part “shorthand” method it calls “say, stay, and strive.” First, Accenture assesses how positively the employee speaks about the company and recommends it to others. Second, it looks at who stays with the company, and why. Third, it looks at “strive.” For instance, “do employees take an active role in the overall success of the organization by moving beyond just doing tasks to going above and beyond?”⁷⁷

The Employee Engagement Guide for Managers sections in this and the following chapters will show how managers use human resource activities to improve employee engagement.

How Kia Motors (UK) Improved Performance with an HR Strategy Aimed at Boosting Employee Engagement

Kia Motors is a successful automobile manufacturer employing tens of thousands of employees around the world, and one famous for its 10-year warranty and for the quality and value of its products. However, Kia was not always so successful. In July 1997, Kia was under bankruptcy protection and having difficulty servicing its \$10.6 billion of debt.⁷⁸ In 1998, Hyundai Motorcar Company of Korea purchased 51% of Kia. That triggered a multiyear program aimed at improving Kia's operating performance. Today, Hyundai owns about one-third of Kia Motors, although Kia is still a close-knit part of Hyundai Motor Group.

THE CHALLENGES After several years of improving operating conditions under Hyundai Motor Group, Kia (as well as most auto manufacturers around the world) ran into strong headwinds as credit tightened and consumers cut spending around 2006. Looking at the situation in 2006–2007, Kia's chairman, writing in the company's annual report said,

In today's automobile industry, competition is so severe that even the bold at heart, if well-informed, would be hesitant to confidently predict future victors in the car market. Japanese automobile companies are unrelenting in their measures against us, while latecomers, such as China, are speeding up to catch up with us as far as they can. Stagnation and the world economic growth, coupled with exchange-rate risks and other major threats, present unfavorable economic conditions for any global player.⁷⁹

In the face of these challenges, the chairman went on to lay out what Kia's strategy for dealing with this intense global competition would be. As he said:

We intend to base future growth on raising our competencies as a global maker in all areas including production, sales, marketing, branding, as well as before and after servicing. We will also concentrate on our global quality management we have driven so far. We will first strengthen our basic competitiveness in terms of production costs and final products. Second, we will exclude all the unnecessary elements from the management through advanced systems to groundwork the base of stable profit making. Third, we will efficiently invest in new future businesses with our specialized R&D and global production bases.⁸⁰

Also in 2006–2007, Kia Motor's UK subsidiary (Kia UK), which employed about 2,500 people, faced particularly dire circumstances; these included rapidly falling sales, increased financial losses, and low levels of employee engagement. Employee turnover was 31%. The direct cost to the company from the 31% turnover alone was estimated at about 600,000 British pounds (about \$1 million) in 2006 (due to higher than necessary recruitment, legal, and employee dismissal costs).⁸¹

THE NEW HUMAN RESOURCE MANAGEMENT STRATEGY Gary Tomlinson, Kia UK's newly appointed head of HR, believed that Kia UK's low employee engagement was probably both a cause and an effect of the unit's poor performance. In fact, a survey of Kia UK employees had identified numerous personnel issues including possibly poor morale and communications. He knew Kia UK needed a new HR strategy to address this. He also knew that this strategy should support the parent company's strategy of basing "future growth on raising our competencies as a global maker in all areas including production, sales, marketing, branding, as well as before and after servicing."

Tomlinson (with the support of Kia UK's top management) wisely decided to develop, as he put it, "an employee engagement strategy to improve employee morale and address the high levels of employee turnover."⁸² In brief, the idea was that, by (1) putting in place new HR policies and practices aimed at improving employee engagement, he could (2) change Kia UK employees' behavior (improve performance and reduce turnover, for instance), and thereby (3) support the parent company's stated strategy of "raising our competencies as a global maker in all areas." The following shows what he actually did to boost employee engagement.

HOW TO EXECUTE AN EMPLOYEE ENGAGEMENT STRATEGY Actually executing Kia UK's employee engagement HR strategy involved six steps (and these provide a roadmap for any such endeavor). First, Kia UK set *measurable objectives* for the program. These objectives included improving by at least 10% survey feedback scores for line managers' behaviors in terms of communication, the quality of appraisal feedback they gave their direct reports, the recognition of work done, and the respect between manager and employee.⁸³ Other objectives included reducing employee turnover employment costs (e.g., recruitment costs) by at least 10% per year.

Second, Kia UK held an extensive *leadership development* program. For example, it sent all managers for training to improve their management skills. Kia then tested the new skills with "360-degree" assessment tools (having managers' bosses, peers, and subordinates rate the managers' new leadership skills).

Third, Kia UK instituted new *employee recognition programs*. These included, for instance, giving “Outstanding Awards” to selected employees quarterly, and “Kia thank you” cards for jobs well done.⁸⁴

Fourth, Kia UK *improved internal communications*. For example, it instituted quarterly employee briefings and more extensive use of performance appraisals, and launched a new corporate intranet called Kia Vision (this provided key business information and other useful communiqués to all employees). Based on employee feedback, Kia UK also decided, as part of the enhanced communications, to institute an *employee forum*. This consisted of one representative from each department; the forum in effect empowered and involved employees by enabling them to express opinions, suggestions, and concerns about their jobs.

Fifth, Kia instituted a new *employee development program*. This involved using the company’s appraisal process to identify employees’ training needs. Kia then created training plans for each employee. It based these plans on Kia’s needs and on the employee’s stated career aspirations.

Sixth, Kia UK made a number of changes to its *compensation and other policies*. For instance, it eliminated bonuses and substituted fixed-rate percentage-based salary increases. It also rewrote the entire employee handbook and all HR policies and procedures “to ensure they were aligned with [Kia UK’s new] cultural values.”⁸⁵

THE RESULTS The results of the new employee engagement program were impressive. Employee surveys of employee engagement and of line managers’ communications and other behaviors improved markedly; employee turnover fell from 31% in 2006 to 15% in 2007, to 5% in 2008, and to below 2% by the end of 2009. Recruitment and turnover costs fell by more than 400,000 British pounds within two years, a 71% reduction.⁸⁶

Earlier we said that *strategic human resource management* means having the HR policies and practices that will produce the employee competencies and behaviors that the company needs to achieve its strategic goals. Kia UK’s employee engagement program illustrates how one company actually did this.

Chapter Review

Chapter Section Summaries

3-1. All managers’ personnel and other decisions should be consistent with the goals that cascade down from the firm’s overall strategic plan. Those goals form a hierarchy, starting with the president’s overall strategic goals (such as double sales revenue to \$16 million) and filtering down to what each individual manager needs to do in order to support that overall company goal.

The **strategic planning** process’s seven steps include: (1) ask, “Where are we now as a business?”; (2) evaluate the firm’s internal

and external strengths, weaknesses, opportunities, and threats; (3) formulate a new business direction; (4) decide on strategic goals; and (5) choose specific strategies or courses of action; steps (6) and (7) are to implement and then evaluate the strategic plan.

3-2. We distinguished among **three types of strategies**: corporate, business/competitive, and functional/department strategies.

3-3. Each function or department in the business needs its own functional strategy, and **strategic human resource management**

means formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims. Human resource strategies are the specific human resource management policies and practices managers use to support their strategic aims. Important and popular **strategic human resource management** tools include the strategy map, the HR scorecard, and digital dashboards.

- 3-4. The manager will want to gather and analyze data prior to making decisions. **Human resource metrics** (quantitative measures of some human resource management activities such as employee turnover) are critical in creating high-performance human resource policies and practices.
- 3-5. A **high-performance work system** is a set of human resource management policies and

practices that together produce superior employee performance.

- 3-6. Employee engagement is important because it drives performance and productivity. Actually **executing Kia UK's employee engagement HR strategy** involved six steps. These were: set *measurable objectives* for the program; provide *leadership development*, for example, send all managers for training to improve their management skills; institute new *employee recognition programs*, for instance, giving "Outstanding Awards" to selected employees quarterly; institute a new *employee development program*, for instance, using the company's appraisal process to identify employees' training needs and to create training plans for each employee; and change the *compensation* and *other policies* to ensure they are aligned with the new cultural values.

Discussion Questions

- 3-1. Give an example of hierarchical planning in an organization.
- 3-2. What is the difference between a corporate strategy and a competitive strategy? Give one example of each.
- 3-3. Explain why strategic planning is important to all managers.
- 3-4. Explain with examples each of the eight steps in the strategic management process.
- 3-5. Explain with examples how human resources management can be instrumental in helping a company create a competitive advantage.
- 3-6. Outline how you would implement an employee engagement program.

Individual and Group Activities

- 3-7. With three or four other students, form a strategic management group for your college or university. Your assignment is to develop the outline of a strategic plan for the college or university. This should include such things as strategic goals and corporate, competitive, and functional strategies. In preparing your plan, make sure to show the main strengths, weaknesses, opportunities, and threats the college faces, and which prompted you to develop your particular strategic plans.
- 3-8. Using the Internet or library resources, review the annual reports and other publicly available information of five companies. Bring to class examples of how those companies say they are using their HR processes to help the company achieve its strategic goals.
- 3-9. Interview an HR manager and write a short report on "The Strategic Roles of the HR Manager at XYZ Company."
- 3-10. Using the Internet or library resources, bring to class and discuss at least two examples of how companies are using an HR scorecard and/or HR Audit to help create HR systems that support the company's strategic aims. Do all managers seem to mean the same thing when they refer to HR scorecards? If not, how do they differ?
- 3-11. In teams of several students, choose a company for which you will develop an outline of a strategic HR plan. What seem to be this company's main strategic aims? What is the firm's competitive strategy? What would the strategic map for this company look like? How would you summarize your recommended strategic HR policies for this company?

3-12. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter

that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

Developing an HR Strategy for Cafe Coffee Day

Written and copyrighted by Biju Varkkey.

Cafe Coffee Day (CCD) was an early entrant to the coffee chain business in India. CCD played a significant role in developing cafe culture in India. Its outlets are now hangouts for people, which offers Coffee and food at affordable rates. By sourcing from numerous small coffee planters, the chain also helped them get better prices. However, with entry of global chains like Starbucks (backed by Tata group) and Tea Parlours, CCD is facing new challenge. Recently, there are talks about Coke showing interest in buying out CCD. You need to help for the CEO of CCD formulate a new direction.

Purpose: The purpose of this exercise is to give you experience in developing an HR strategy, in this case, by developing one for CCD.

Required Understanding: You should be thoroughly familiar with the material in this chapter.

How to Set Up the Exercise/Instructions: Set up groups of five or six students for this exercise. Students are probably already quite familiar with what it's like to have a cup of coffee or tea in a CCD outlet, but if not, spend some time in one prior to this exercise. Meet in groups and develop an outline for an HR strategy for CCD. Assume that for a corporate strategy, CCD will remain primarily a national chain of coffee shops. The outline should include four basic elements: a business/competitive strategy for CCD, the workforce requirements (in terms of employee competencies and behaviors) this strategy requires, specific HR policies and the activities necessary to produce these workforce requirements, and suggestions for metrics to measure the success of the HR strategy.

Application Case

Tesla's Strategy

Written and copyrighted by Gary Dessler, PhD.

By 2017 Tesla Motors briefly had a market value higher than the much-larger General Motors. Tesla's strategic plan, formulated in 2006 by company founder Elon Musk, was to start by offering a high-performance energy-efficient electric roadster "without compromises" and then expand to offer less-expensive family cars, while eventually enabling battery recharging with solar power devices.⁸⁷

By early 2017, it was clear that Tesla was not soon going to achieve its goal of producing 5,000 Model 3 family sedans per week, and the company also faced numerous human resource management-related challenges.⁸⁸

For example, hundreds of workers stopped building Tesla's battery factory near Reno, Nevada, claiming that outside contract workers were lowering their pay. Workers at Tesla's car plant complained of high employee accident rates. Musk reportedly said that Tesla wasn't skimping on safety to make more profit, but rather to survive and continue to offer employment.

Tesla also laid off about 700 workers at its California manufacturing facility. Many union activists asked why, having to ramp up production of the new Tesla Model 3, the company would dismiss so many employees. Some felt it wasn't because of poor performance reviews, but because Tesla wanted to fire employees who wanted a union. Elon Musk defends dismissing the 700 workers. Basically, he said (1) most companies have performance reviews and use them to screen out employees, and (2) because it wants the highest-quality cars, Tesla needs to have

higher performance standards than its competitors. As Musk says, if a little company wants to compete with a giant one, the little one must have a lot more skill, or it will get pummeled.

Some of Tesla's HR procedures are also somewhat unusual. For example, Tesla requires that new employees sign confidentiality agreements prohibiting them from discussing Tesla's business strategy and working conditions. The United Auto Workers filed unfair labor practice charges against Tesla, claiming that such agreements violate employees' rights.

Tesla does use some sophisticated HR tools to improve its HR processes. For example, they used talent analytics to determine if employee referral programs improve their recruitment and retention processes and distributed an employee engagement survey.

By May 2017, Tesla appointed a new HR head, Gaby Toledano, with the title Chief People Officer. In announcing the appointment, Tesla noted that she would help Tesla address its labor and harassment disputes. Ms. Toledano acknowledged

that some disputes between workers weren't reaching the HR office fast enough, but she said she's working on the problem. Furthermore, Tesla employees receive antidiscrimination and antiharassment training.

Questions

- 3-13. Was Tesla's human resource strategy consistent with its overall strategy to produce "uncompromising" high-performance cars?
- 3-14. Given what Kia UK accomplished, should Tesla implement such an engagement program? Why?
- 3-15. What would you do now if you were Tesla's Chief People Officer?
- 3-16. Based on the case, provide examples for Tesla of at least four strategically required organizational outcomes, and four required workforce competencies and behaviors.
- 3-17. Provide a brief illustrative outline of a strategy map for Tesla.

Continuing Case

Carter Cleaning Company

Written and copyrighted by Gary by Dessler, PhD.

The High-Performance Work System

As a person who keeps up with the business press, Jennifer Carter is familiar with the benefits of programs such as total quality management and high-performance work systems.

Jack, her father, actually installed a total quality program of sorts at Carter, and it has been in place for about 5 years. This program takes the form of employee meetings. Jack holds employee meetings periodically, but particularly when there is a serious problem in a store—such as poor-quality work or machine breakdowns. When problems like these arise, instead of trying to diagnose them himself or with Jennifer, he contacts all the employees in that store and meets with them when the store closes. Hourly employees get extra pay for these meetings. The meetings have been useful in helping Jack to identify and rectify several problems. For example, in one store all the fine white blouses were coming out looking dingy. It turned out

that the cleaner/spotter had been ignoring the company rule that required cleaning ("boiling down") the perchloroethylene cleaning fluid before washing items like these. As a result, these fine white blouses were being washed in cleaning fluid that had residue from other, earlier washes.

Jennifer now wonders whether these employee meetings should be expanded to give the employees an even bigger role in managing the Carter stores' quality. "We can't be everywhere watching everything all the time," she said to her father. "Yes, but these people only earn about \$8 to \$15 per hour. Will they really want to act like mini-managers?" he replied.

Questions

- 3-18. Would you recommend that the Carters expand their quality program? If so, specifically what form should it take?
- 3-19. Assume the Carters want to institute a high-performance work system as a test program in one of their stores. Write a one-page outline summarizing important HR practices you think they should focus on.

Translating Strategy into HR Policies and Practices Case^s

Improving Performance at the Hotel Paris

The Hotel Paris International

Starting as a single hotel in a Paris suburb in 1995, the Hotel Paris is now a chain of nine hotels, with two in France, one each in London and Rome, and others in New York, Miami, Washington, Chicago, and Los Angeles. As a corporate strategy, the Hotel Paris's management and owners want to continue to expand geographically. They believe doing so will let them capitalize on their reputation for good service, by providing multicity

alternatives for their satisfied guests. The problem is, their reputation for good service has been deteriorating. If they cannot improve service, it would be unwise for them to expand, since their guests might prefer other hotels after trying the Hotel Paris.

Several things are complicating their problem. Tourists increasingly stay at short-term rental apartments (often through sites such as airbnb.com) for a fraction of what fine hotels cost. In 2018 Airbnb agreed to more stringently comply with the limits on the lengths of rentals in the heart of Paris, but not elsewhere. Marriott recently acquired the Starwood hotels chain (including many

brands such as Ritz-Carlton) and will present increased competition. And the election as French president of Emmanuel Macron in 2017 prompted widespread optimism among many in France regarding the country's growth prospects, but also the possibility of some labor strife, at least in the short run.

The Strategy

Top management, with input from the HR and other managers, and with the board of directors' approval, chooses a new competitive strategy and formulates new strategic goals. It decides: "The Hotel Paris International will use superior guest services to differentiate the Hotel Paris properties, and to thereby increase the length of stays and the return rate of guests, and thus boost revenues and profitability." All Hotel Paris managers—including the director of HR services—must now formulate strategies that support this competitive strategy.

The Strategically Required Organizational Outcomes

The Hotel Paris's basic strategy is to use superior guest services to expand geographically. For HR director Lisa Cruz, reviewing the hotel's activities makes it clear that achieving the hotel's strategic aims means achieving a number of required organizational outcomes. For example, Lisa and her management colleagues must take steps that produce fewer customer complaints and more written compliments, more frequent guest returns and longer stays, and higher guest expenditures per visit.

The Strategically Relevant Workforce Competencies and Behaviors

The question facing Lisa, then, is this: What competencies and behaviors must our hotel's employees exhibit, if we are to produce required organizational outcomes such as fewer customer complaints, more compliments, and more frequent guest returns? Thinking through this question helps Lisa come up with an answer. For example, the hotel's required employee competencies and behaviors would include, "high-quality front-desk customer service," "taking calls for reservations in a friendly manner," "greeting guests at the front door," and "processing guests' room service meals efficiently." All require motivated, high-morale employees.

The Strategically Relevant HR Policies and Activities

The HR manager's task now is to identify and specify the HR policies and activities that will enable the hotel to produce these crucial workforce competencies and behaviors. For example, "high-quality front-desk customer service" is one such required behavior. From this, the HR director identifies HR activities to produce such front-desk customer service efforts. For example, she decides to *institute practices to improve the disciplinary fairness and justice in the company*, with the aim of *improving employee morale*. Her assumption is that enhanced fairness will produce higher morale and that higher morale will produce improved front-desk service.

The Strategy Map

Next, Lisa, working with the hotel's chief financial officer (CFO), outlines a strategy map for the hotel. This outlines the cause-and-effect links among the HR activities, the workforce behaviors, and the organizational outcomes.

This map and its linkages reflect certain assumptions on Lisa's part. For example, based on experience and discussions with the firm's other managers, she formulates the following *hypothesis* about how HR affects hotel performance: Improved grievance procedures cause improved morale, which leads to improved front-desk service, which leads to increased guest returns, which leads to improved financial performance. The HR director then chooses metrics to measure each of these factors. For example, she decides to measure "improved disciplinary procedures" in terms of how many grievances employees submit each month. She measures "improved morale" in terms of "scores on our hotel's semiannual attitude survey," and measures "high-quality front-desk customer service" in terms of "customer complaints per month."

She moves on to quantifying the cause-and-effect links among these measures. For example: "Can we show top management that there is a measurable, sequential link between improved disciplinary procedures, high morale, improved front-desk service, number of guest return visits, and hotel financial performance (revenues and profits)?" If she can show such links, she has a persuasive case that shows HR's measurable contribution to the hotel's bottom-line financial performance.

In practice, the HR manager may well just rely on a largely subjective but logical argument to make the case for such cause-and-effect linkages. But ideally, she will use statistical methods such as correlation analysis to determine if measurable links exist, and (if so) what their magnitudes are. In this way, she might find, for instance, that a 10% improvement in grievance rates is associated with an almost 20% improvement in morale. Similarly, a 20% improvement in morale is associated with a 30% reduction in customer front-desk complaints. Furthermore, a 30% reduction in complaints is associated with a 20% increase in guest return visits, and a 20% increase in return rate is associated with a 6% rise in hotel revenues. It would appear that a relatively small HR effort in reducing grievances might have a big effect on this hotel's bottom-line performance!

Several things complicate this measurement process. For example, it's risky to draw cause-effect conclusions from correlation measures like these (do fewer grievances lead to higher morale, or vice versa?). Furthermore, it's rare that a single factor (such as grievance rates) will have such effects alone, so we may want to measure the effects of several HR policies and activities on morale simultaneously.

As explained in this chapter, computerization could enable Lisa to build a more comprehensive HR scorecard process, one that might handle links among dozens of cause-and-effect metrics. (Several vendors supply such scorecard software.) If not, then she will rely more on the logic and common sense underlying the strategy map to make her case.

[§] Written and copyrighted by Gary Dessler, PhD.

How We Will Use the Hotel Paris Case

A Hotel Paris case in each chapter will show how Lisa, the Hotel Paris's HR director, uses that chapter's concepts and techniques to: (1) create HR policies and practices that help the Hotel Paris, (2) produce the employee competencies and behaviors the company needs, and (3) to produce the customer service the Hotel Paris requires to achieve its strategic goals.

For example, she will endeavor to improve workforce competencies and behaviors by instituting improved recruitment (processes Chapter 5), and measure improved recruitment in terms of "number of qualified applicants per position." Similarly, she will recommend to management that they change the company's pay policies, so that the "target percentile for total compensation is in the top 25%." She could argue, based on competitors'

experience, that doing so will translate into improved customer service behavior, more satisfied customers, and improved hotel performance. In practice, all the human resource management functions we discuss in this book influence employee competencies and behaviors, and thereby organizational performance.

Questions

- 3-20. Draw a more simplified and abbreviated strategy map for the Hotel Paris. Specifically, summarize in your own words an example of the hierarchy of links among the hotel's *HR practices*, necessary *workforce competencies* and behaviors, and required *organizational outcomes*.
- 3-21. Using Table 3-1 and Figure 3-9, list at least 15 metrics the Hotel Paris could use to measure its HR practices.

Writing Assignments

- 3-22. Define and give at least two examples of the cost-leadership competitive strategy and the differentiation competitive strategy.
- 3-23. You own a small business, and your friend, over lunch, just mentioned that "it sounds like you have an employee engagement problem." What exactly would you do to improve employee engagement in your company now?

Key Terms

strategic plan, 87	corporate-level strategy, 90	strategic human resource management, 92	human resource metric, 99
strategy, 87	competitive strategy, 91	strategy map, 94	strategy-based metrics, 101
strategic management, 87	competitive advantage, 91	HR scorecard, 95	HR audit, 101
vision statement, 89	functional strategy, 91	digital dashboard, 96	high-performance work system (HPWS), 105
mission statement, 89			

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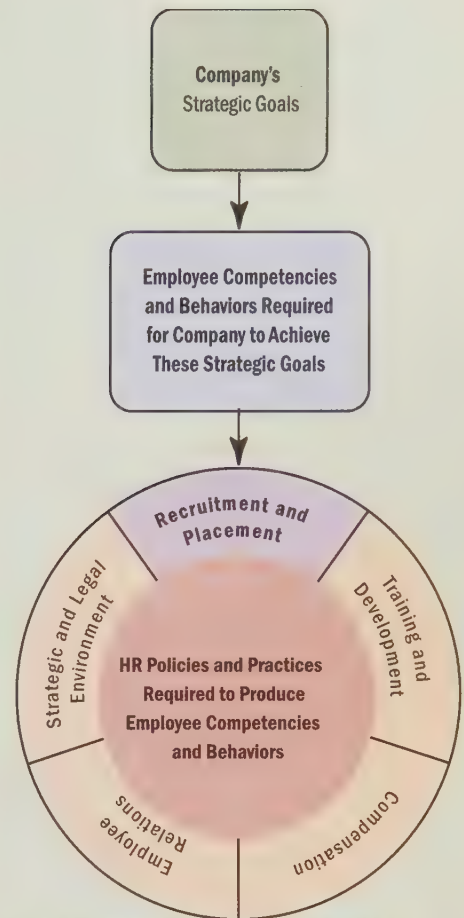
Job Analysis and the Talent Management Process

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 4-1** **Define** talent management, and explain what talent management-oriented managers do.
- 4-2** **Discuss** the process of job analysis, including why it is important.
- 4-3** **Explain and use** at least three methods of collecting job analysis information.
- 4-4** **Explain** how you would write a job description, and what sources you would use.
- 4-5** **Explain** how to write a job specification.
- 4-6** **Give** examples of competency-based job analysis.

The technological advancements in the banking sector, particularly digitization posed a challenge for the older banks. Banks were adopting more customer-centric approach and embracing digital technology. The public sector banks lagged in modernization because of the traditional and bureaucratic banking norms that were in force. Traditionally, working hours, modes of transaction, and other processes were rigidly defined and regulated. In the face of competition, public sector banks like the State bank of India and Bank of Baroda had to hire new talent and keep an open mind about evolving norms. Innovations like tablet banking, mobile banking and scorecard based lending has changed the work profile of bank employees. How do you hire people whose job duties may change frequently? In this chapter,¹ we will see what they did.



WHERE ARE WE NOW . . .

Managers should know what a job entails before deciding who to recruit and hire for it, so human resource management really starts with determining what the job entails. The main purpose of this chapter is to show you how to analyze jobs and write job descriptions. We discuss several techniques for analyzing jobs and explain how to write job descriptions and job specifications. The main topics we address include **The Talent Management Process, The Basics of Job Analysis, Methods for Collecting Job Analysis Information, Writing Job Descriptions, Writing Job Specifications, and Using Competencies Models**. Then, in Chapter 5 (Personnel Planning and Recruiting), we'll see how to actually find the employees you need.

LEARNING OBJECTIVE 4-1

Define talent management, and explain what talent management-oriented managers do.

Talent Management Process

For many people, Chapters 4–13 represent the heart of this book, specifically recruitment, selection, training, appraisal, career planning, and compensation. Managers traditionally view these activities as a series of steps:

1. Decide what positions to fill, through job analysis, personnel planning, and forecasting.
2. Build a pool of job applicants, by recruiting internal or external candidates.
3. Obtain application forms and perhaps have initial screening interviews.
4. Use selection tools like tests, interviews, background checks, and physical exams to identify viable candidates.
5. Decide to whom to make an offer.
6. Orient, train, and develop employees so they have the competencies to do their jobs.
7. Appraise employees to assess how they're doing.
8. Compensate employees to maintain their motivation.

This stepwise view makes sense. For example, the employer needs job candidates before selecting whom to hire.

The problem with the stepwise view is twofold. First, the process usually isn't really stepwise. For example, managers don't just train employees (step 6 above) and then appraise how they're doing (step 7). Instead (to use our example), the appraisal may well also loop back to shape the employee's subsequent training. So, first, rather than view these eight HR activities as stepwise, it is best to view them holistically—because the steps interactively affect each other and work together. The second problem is that focusing just on each step may cause the manager to miss the forest for the trees. It's not just each step but the *results you obtain* by applying them together that's important. So, second, it's important to remember that each and every step should be focused on achieving, in unison, some specific result (such as, say, improving customer service).

Recognizing all this, the trend today is to view these eight activities not stepwise but as part of a coordinated *talent management* effort.² We will define **talent management** as *the holistic, integrated and results- and goal-oriented process of planning, recruiting, selecting, developing, managing, and compensating employees*.³ What does this mean in practice? As an example, the manager who takes a talent management approach tends to take actions such as the following:

1. He or she starts with the results and asks, “What recruiting, testing, training, or pay action should I take to produce the employee competencies we need *to achieve our company's goals*?”
2. He or she treats activities such as recruiting and training as interrelated. For example, the manager knows that having employees with the right skills depends as much on recruiting and training as on applicant testing.
3. Because talent management is holistic and integrated, he or she will probably use the same “profile” of required human skills, knowledge, and behaviors (“competencies”) for formulating a job's recruitment plans as for making selection, training, appraisal, and compensation decisions for it.

talent management

The goal-oriented and integrated process of planning, recruiting, developing, managing, and compensating employees.

4. And, to ensure the activities are all focused on the same ends, the manager will take steps to coordinate the talent management functions (recruiting and training, for example). Doing so often involves using talent management software.

Talent Management Software

Employers use talent management software to help ensure that their talent management activities are aimed in a coordinated way to achieve the company's HR aims. ZingHR is a talent management software developed for Indian companies. It includes e-recruiting, on-boarding, performance management, and compliance management. It uses a cloud-based HCM software wherein job aspirants are provided with candidate portals where they can provide information even before they come for a face-to-face interview. This helps recruiting managers to invite only those candidates who are fit for job interview. Thus, this helps in lowering the processing time, thereby reducing costs.⁴ Darwinbox is another software that helps to manage the entire employee life cycle in one platform.⁵



LEARNING OBJECTIVE 4-2

Discuss the process of job analysis, including why it is important.

job analysis

The procedure for determining the duties and skill requirements of a job and the kind of person who should be hired for it.

job descriptions

A list of a job's duties, responsibilities, reporting relationships, working conditions, and supervisory responsibilities—one product of a job analysis.

job specifications

A list of a job's "human requirements," that is, the requisite education, skills, personality, and so on—another product of a job analysis.

The Basics of Job Analysis

Talent management starts with understanding what jobs need to be filled, and the human traits and competencies employees need to do those jobs effectively.

What Is Job Analysis?

Organizations consist of positions that have to be staffed. The organization chart (see Figure 4-1) shows the title of each supervisor's position and, by means of connecting lines, who is accountable to whom, who has authority for each area, and who is expected to communicate with whom. **Job analysis** is the procedure through which you determine the duties of the company's positions and the characteristics of the people to hire for them.⁶ Job analysis produces information for writing **job descriptions** (a list of what the job entails) and **job** (or "person") **specifications** (what kind of people to hire for the job). Virtually every personnel-related action—interviewing applicants, and training and appraising employees, for instance—requires knowing what the job entails and what human traits one needs to do the job well.⁷ Just about every employer today—from Marriott to Airbnb—uses job analysis and the job descriptions that stem from it.⁸

The supervisor or human resources specialist normally collects one or more of the following types of information via the job analysis:

- **Work activities.** Information about the job's actual work activities, such as cleaning, selling, teaching, or painting. This list may also include how, why, and when the worker performs each activity.
- **Human behaviors.** Information about human behaviors the job requires, like sensing, communicating, lifting weights, or walking long distances.
- **Machines, tools, equipment, and work aids.** Information regarding tools used, materials processed, knowledge dealt with or applied (such as finance or law), and services rendered (such as counseling or repairing).
- **Performance standards.** Information about the job's performance standards (in terms of quantity or quality levels for each job duty, for instance).

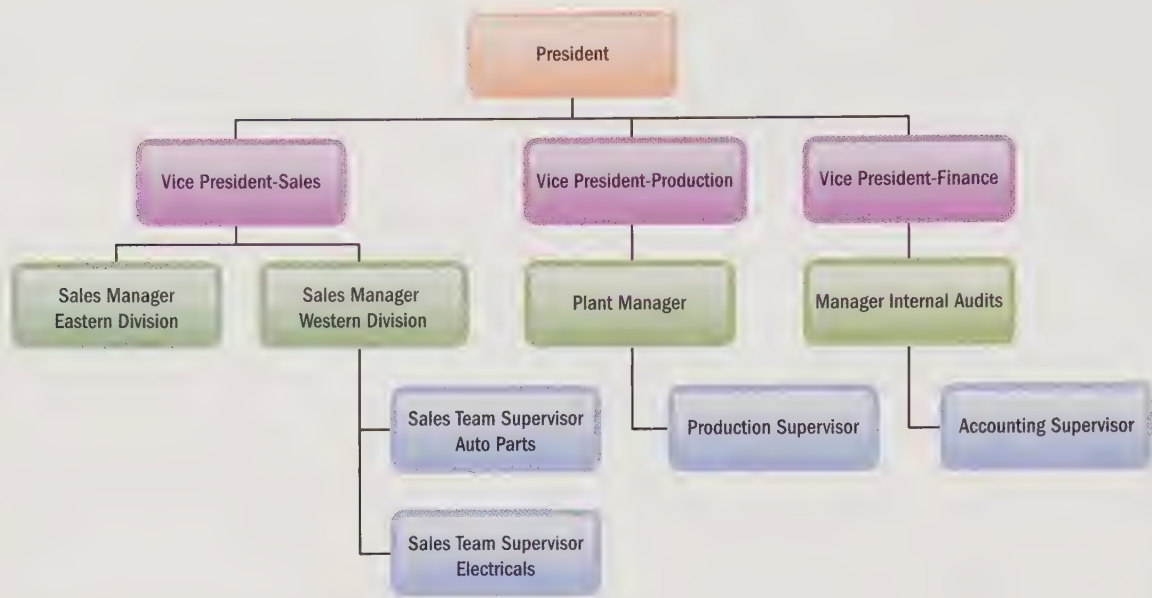


FIGURE 4-1 Organization Chart

- **Job context.** Information about such matters as physical working conditions, work schedule, incentives, and, for instance, the number of people with whom the employee would normally interact.
- **Human requirements.** Information such as knowledge or skills (education, training, work experience) and required personal attributes (aptitudes, personality, interests).

Uses of Job Analysis Information

As Figure 4-2 summarizes, job analysis is important because it supports just about all human resource management activities.

RECRUITMENT AND SELECTION Information about what duties the job entails and what human characteristics are required to perform these duties helps managers decide what sort of people to recruit and hire.

COMPLAINT AND EMPLOYMENT RELATIONS Many technical jobs (like safety officer) require specific skills and capabilities, for which job analysis is conducted. In public sector undertakings (PSUs), particularly banks, job analysis was conducted and after negotiations with unions, initiatives like one-window banking and core banking were introduced.

PERFORMANCE APPRAISAL A performance appraisal compares an employee's actual performance of his or her duties with the job's performance standards. Managers use job analysis to learn what these duties and standards are.

COMPENSATION Compensation (such as salary and bonus) usually depends on the job's required skill and education level, safety hazards, degree of responsibility, and so on—all factors you assess through job analysis.

TRAINING The job description lists the job's specific duties and requisite skills—thus pinpointing what training the job requires.



Conducting a Job Analysis

There are six steps in doing a job analysis of a job, as follows.

STEP 1: Identify the use to which the information will be put because this will determine how you collect the information. Some data collection techniques—like interviewing the employee—are good for writing job descriptions. Other techniques, like the position analysis questionnaire we describe later, provide numerical ratings for each job; these can be used to compare jobs for compensation purposes.



FIGURE 4-2 Uses of Job Analysis Information

STEP 2: Review Relevant Background Information About the Job, Such as Organization Charts and Process Charts⁹ It is important to understand the job's context. For example, **organization charts** show the organizationwide division of work, and where the job fits in the overall organization. A **process chart** provides a detailed picture of the workflow. Thus, in the process chart in Figure 4-3, the quality control clerk should review components from suppliers, check components going to the plant managers, and give information regarding the components' quality to these managers. Finally, an existing job description may provide a starting point for revising the job description.

organization chart

A chart that shows the organizationwide distribution of work, with titles of each position and interconnecting lines that show who reports to and communicates with whom.

process chart

A workflow chart that shows the flow of inputs to and outputs from a particular job.

workflow analysis

A detailed study of the flow of work from job to job in a work process.

Workflow Analysis Reviewing the organization chart, process chart, and job description helps the manager identify what a job's duties and demands are now. However, it does *not* answer questions like “Does how this job relates to other jobs make sense?” or “Should this job even exist?” To answer such questions, the manager may conduct a *workflow analysis*. **Workflow analysis** is a detailed study of the flow of work from job to job in one identifiable work process (such as processing a mortgage application). In turn, this analysis may lead to changing or “reengineering” the job. The following HR as a Profit Center feature illustrates workflow analysis.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

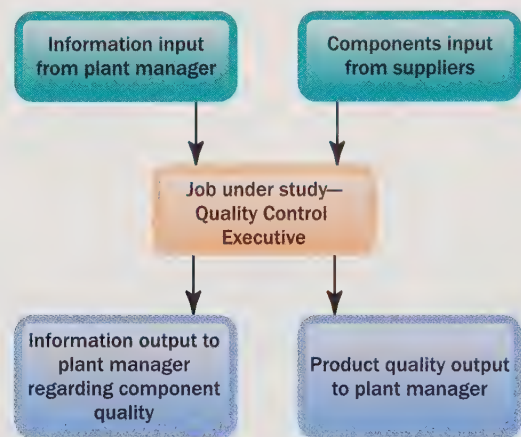
Boosting Productivity Through Work Redesign¹⁰

The Atlantic American insurance company, U.S. conducted a workflow analysis to identify inefficiencies in how it processes insurance claims. As the firm's HR director said, "We followed the life of a claim to where it arrived in the mail and where it eventually ended up" in order to find ways to improve the process.¹¹

The workflow analysis prompted several performance-boosting redesigns of the insurance claim jobs. The firm reduced from four to one the number of people opening mail, replacing three people with a machine that does it automatically. A new date stamping machine lets staff stamp 20 pages at a time rather than one. A new software program adds bar codes to each claim automatically, rather than manually. The new system lowered costs. ■

FIGURE 4-3 Process Chart for Analyzing a Job's Workflow

Source: Henderson, Richard I., *Compensation Management in a Knowledge Based World*, 9th Ed., © 2003, p.137. Modified, Reprinted and Electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.



In conducting a workflow analysis, the manager may use a *flow process chart*; this lists in order each step of the process. The manager may convert this step-by-step flow process chart into a diagrammatic process chart. This shows, with arrows and circles, each step in the process.

Business Process Reengineering The workflow analysis at American Atlantic led to a *reengineering* of its claims processing operation. **Business process reengineering** means redesigning business processes, usually by combining steps so that small multifunction teams, often using information technology, do the jobs formerly done by a sequence of departments. The basic reengineering approach is to:

1. Identify a business process to be redesigned (such as processing an insurance claim)
2. Measure the performance of the existing processes
3. Identify opportunities to improve these processes
4. Redesign and implement a new way of doing the work
5. Assign ownership of sets of formerly separate tasks to an individual or a team who use new computerized systems to support the new arrangement

As at firms following this approach like the Atlantic American, reengineering usually requires redesigning individual jobs. For example, workers doing date stamping must now know how to use the new date-stamping machine.

business process reengineering

Redesigning business processes, usually by combining steps, so that small multifunction process teams using information technology do the jobs formerly done by a sequence of departments.

Job Redesign Early economists enthusiastically described why specialized jobs were more efficient (as in, “practice makes perfect”). Today, most agree that specialized jobs can backfire, for instance by sapping morale. Experts typically suggest three ways to redesign specialized jobs to make them more challenging. **Job enlargement** means assigning workers additional same-level activities. Thus, the worker who previously only bolted the seat to the legs might attach the back too. **Job rotation** means systematically moving workers from one job to another. In Indian public sector banks, it’s mandatory that branch level clerical employees are rotated between jobs every six months. Job rotation helps the employees to develop new skills and attitudes. It also reduces work monotony. Additionally its also a risk management mechanism. Thus, the bank is able to develop motivated and multi-skilled employees.

job enlargement

Assigning workers additional same-level activities.

job rotation

Systematically moving workers from one job to another.

job enrichment

Redesigning jobs in a way that increases the opportunities for the worker to experience feelings of responsibility, achievement, growth, and recognition.

Psychologist Frederick Herzberg argued that the best way to motivate workers is through what he called job enrichment. **Job enrichment** means redesigning jobs in a way that increases the opportunities for the worker to experience feelings of responsibility, achievement, growth, and recognition—and therefore more motivation. It does this by *empowering* the worker—for instance, by giving the worker the skills and authority to inspect the work, instead of having supervisors do that. A simple example of enrichment is to allow a front-office receptionist to be responsible for activities like travel management, or basic customer relationship management activities. Empowerment, in this context, implies that the individual is made responsible for providing service as well as other dimensions like cost reduction and customer satisfaction. Herzberg said empowered employees would do their jobs well because they wanted to, and quality and productivity would rise. That philosophy, in one form or another, is the theoretical basis for the team-based self-managing jobs in many companies around the world today.

STEP 3: *Select Representative Positions* Next, with a job to analyze, the manager generally selects a sample of positions to focus on. For example, it is usually unnecessary to analyze the jobs of all the firm’s 200 assembly line or warehouse workers; instead a sample of 10 jobs will do.

STEP 4: *Actually Analyze the Job* The actual job analysis involves greeting each job holder; briefly explaining the job analysis process and the participants’ roles in this process; spending about 15 minutes interviewing the employee to get agreement on a basic summary of the job; identifying the job’s broad areas of responsibility, such as “calling on potential clients”; and then interactively identifying specific duties/tasks within each area using one of the methods we describe just below.¹²

STEP 5: *Verify the Job Analysis Information with the Worker Performing the Job and with His or Her Immediate Supervisor* This will help confirm that the information (for instance, on the job’s duties) is correct and complete and help to gain their acceptance.

STEP 6: *Develop a Job Description and Job Specification* The *job description* lists the duties, activities, and responsibilities of the job, as well as its important features, such as working conditions. The *job specification* summarizes the personal qualities, traits, skills, and background required for getting the job done.

LEARNING OBJECTIVE 4-3

Explain and use at least three methods of collecting job analysis information.

Methods for Collecting Job Analysis Information

There are many ways (interviews or questionnaires, for instance) to collect job information.¹³ The basic rule is to use those that best fit your purpose. Thus an interview might be best for creating a list of job duties. The more quantitative “position analysis questionnaire” may be best for quantifying each job’s value for pay purposes. Before actually analyzing the job, keep several things in mind.

- *Make the job analysis a joint effort by a human resources manager, the worker, and the supervisor.* The human resource manager might observe the worker doing the job, and have the supervisor and worker complete job questionnaires. The supervisor and worker then verify the HR manager’s list of job duties.
- *Make sure the questions and the process are clear to the employees.* (For example, some might not know what you mean when you ask about the job’s “mental demands”).
- *Use several job analysis methods.* For example, a questionnaire might miss a task the worker performs just occasionally. Therefore it’s prudent to follow up the questionnaire with a short interview or observation.



The Interview

Job analysis interviews range from unstructured (“Tell me about your job”) to highly structured ones with hundreds of specific items to check off.

Managers may conduct individual interviews with each employee, group interviews with groups of employees who have the same job, and/or supervisor interviews with one or more knowledgeable supervisors. Use group interviews when a large number of employees are performing similar or identical work, since this can be a quick and inexpensive way to gather information. As a rule, the workers’ immediate supervisor attends the group session; if not, you can interview the supervisor separately.

It is helpful to spend several minutes prior to collecting job analysis information explaining the process that you will be following.



Rehan Qureshi. 123rf.com

The interviewee should understand the reason for the interview. There's a tendency for workers to view such interviews, rightly or wrongly, as "efficiency evaluations." If so, interviewees may hesitate to describe their jobs accurately.

TYPICAL QUESTIONS Typical interview questions include the following:

- What is the job being performed?
- What exactly are the major duties/responsibilities of your position? Who all are in your work group?
- What physical locations do you work in?
- What are the education, experience, skill, and [where applicable] certification and training requirements?
- In what activities do you participate?
- What are the job's responsibilities and duties?
- What are the basic accountabilities or performance standards that typify your work?
- What are the environmental and working conditions involved?
- What are the job's physical, emotional, and mental demands?
- What are the health and safety conditions?
- Are you exposed to any hazards or unusual working conditions?

STRUCTURED INTERVIEWS Many managers use questionnaires to guide the interview. Figure 4-4 presents one example. It includes questions regarding matters like the general purpose of the job, supervisory responsibilities, job duties, and skills required. Such structured lists are not just used for interviews. Job analysts who collect information by personally observing work or by using questionnaires can also use the structured lists to guide them.

PROS AND CONS The interview's wide use reflects its advantages. It's a simple and quick way to collect information. Skilled interviewers can also unearth important activities that occur occasionally, or informal contacts not on the organization chart. The employee can also vent frustrations that might otherwise go unnoticed.

Distortion of information is the main problem.¹⁴ Job analysis often precedes changing a job's pay rate. Employees therefore often view it as pay-related, and exaggerate some responsibilities while minimizing others. In one study, researchers listed possible job duties either as simple task statements ("record phone messages and other routine information") or as ability statements ("ability to record phone messages and other routine information"). Respondents were more likely to report performing the ability-based versions of the statements. There may be a tendency for people to inflate their job's importance when abilities are involved, including titles/designations to impress the perceptions of others.¹⁵

INTERVIEWING GUIDELINES To get the best information possible:

- Establish rapport with the interviewee. Know the person's name, speak understandably, briefly review the interview's purpose, and explain how the person was chosen for the interview.

- Use a structured guide that lists questions. This ensures you'll identify crucial questions ahead of time and that all interviewers (if more than one) cover all the required questions. (However, also ask, "Was there anything we didn't cover with our questions?")
- Make sure you don't overlook crucial but infrequently performed activities—like a nurse's occasional emergency room duties. Ask the worker to list his or her duties in order of importance and frequency of occurrence.
- After completing the interview, review the information with the worker's supervisor and the worker.

Questionnaires

Having employees fill out questionnaires to describe their job duties and responsibilities is another popular job analysis approach.

Some questionnaires are structured checklists. Here each employee gets an inventory of perhaps hundreds of specific duties or tasks (such as "change and splice wire"). He or she must indicate if he or she performs each task and, if so, how much time is normally spent on each. At the other extreme, the questionnaire may simply ask, "describe the major duties of your job."

In practice, the questionnaire often falls between these two extremes. As illustrated in Figure 4-4, a typical job analysis questionnaire might include several open-ended questions (such as "Give a brief description of the main function/purpose of your job.") as well as structured questions (concerning, for instance, education required).

Questionnaires have pros and cons. This is a quick and efficient way to obtain information from a large number of employees; it's less costly than interviewing dozens of workers, for instance. However, developing and testing it (perhaps by making sure the workers understand the questions) can be time-consuming. And as with interviews, employees may distort their answers.

Observation

Direct observation is especially useful when jobs consist of observable physical activities—assembly-line worker and accounting clerk are examples. However, it's usually not appropriate when the job entails a lot of mental activity (lawyer, design engineer). Nor is it useful if the employee only occasionally engages in important activities, such as a nurse who handles emergencies. *Reactivity*—the worker's changing what he or she normally does because you are watching—is another problem.

Managers often use direct observation and interviewing together. One approach is to observe the worker on the job during a complete work cycle. (The *cycle* is the time it takes to complete the job; it could be a minute for an assembly-line worker or an hour, a day, or longer for complex jobs.) Here you take notes of all the job activities. Then, ask the person to clarify open points and to explain what other activities he or she performs that you didn't observe.

Participant Diary/Logs

Another method is to ask workers to keep a **diary/log**; here for every activity engaged in, the employee records the activity (along with the time) in a log.

Some firms give employees pocket dictating machines and pagers. Then randomly during the day, they page the workers, who dictate what they are doing at that time.

diary/log

Daily listings made by workers of every activity in which they engage along with the time each activity takes.

FIGURE 4-4 Job Analysis Questionnaire for Developing Job Descriptions

Source: www.tsu.edu. Accessed on 3 December, 2019; www.delawarepersonnel.com. Accessed on 3 December, 2019; www.tnstate.edu. Accessed on 3 December,

JOB ANALYSIS QUESTIONNAIRE*

PURPOSE AND INSTRUCTIONS

Because no one knows the job as well as the person doing it, we are asking you to complete this form. The purpose is to obtain current information on your job based on a review of job duties and responsibilities. We are not asking you about your job performance; only what your job requires you to do.

EMPLOYEE DATA (PLEASE PRINT):

Your Name: _____ Today's date _____

Employee ID: _____

Location/Department: _____

Your Job Title: _____ Job Code: _____

How long have you been in your current position: _____

Work Telephone Number: _____

Supervisor's Name: _____ Supervisor's Title: _____

SUMMARY OF DUTIES/RESPONSIBILITIES

Give a brief description of the main function/purpose of your job. This statement should be a brief summary of the responsibilities listed in the next section.

Listing of Job Duties

What do you do on your job? Please list your job's specific duties/responsibilities in the space below. In doing so:

Please list the most important duties/responsibilities first. Write a separate statement for each duty/responsibility.

At the end of each statement please indicate the approximate percent of your workday (25%, 7%, etc.) you spend on that duty.

Please place an asterisk (*) next to the duties that you consider to be absolutely essential to this job.

(Add additional duties as necessary)

Are there duties you are now performing that are not now in your job description? If so please list them on back of this page.

(Continued)

FIGURE 4-4 *Continued*

Minimum Level of Education (or Equivalent Experience) This Job Requires

What is the minimum level of education necessary to perform your job? Select only one please:

1. Elementary education.
2. Some high school.
3. A high school certificate or equivalent (SSLC).
4. A formal vocational training program (approximately one year), ITI Certificate, an apprenticeship, or some formal college education.
5. A Technical/Vocational Diploma.
6. A bachelor's degree (BA, BCom, BSc).
7. A master's degree (MA, MS, MBA, MPA).
8. A doctorate degree (Ph.D., FPM).
9. Are you required to be formally licensed or certified to perform your work?

☐ Yes ☐ No List type _____

Required Training on Job

What is the level of on-the-job or classroom training someone requires to do your job? Please select one choice below:

1. No additional training required.
2. A day or two.
3. A week.
4. A month.
5. Several months.
6. One year.
7. Two years or more.

SUPERVISORY RESPONSIBILITIES

Do you supervise others as part of your job? If so please briefly describe the nature of your supervisory responsibilities.

PHYSICAL JOB DEMANDS

Please briefly describe this job's main physical demands. For example, does it involve Sitting? Walking? Standing? Lifting? Detailed repetitive motions? Climbing? Etc.

Working Conditions: Environmental and Safety Job Demands

Please list this job's working conditions, such as: air-conditioned office work; outdoor or indoor extreme heat or cold; wet; noise; job hazards; working in elevated conditions; etc.
Does the work involve extensive travel, regular night hours or staying away from home?

EMPLOYEE COMMENTS

Is there any other information that would be important in understanding your job? If so, please give us your comments below.

SUPERVISOR'S REVIEW

Based on your understanding of the job as it currently exists, please review the employee's response and provide your own comments in the space below. Please do not change the employee's responses.

Quantitative Job Analysis Techniques

Qualitative methods like interviews and questionnaires are not always suitable. For example, if your aim is to compare jobs for pay purposes, a mere listing of duties may not suffice. You may need to say that, in effect, “Job A is twice as challenging as Job B, and so is worth twice the pay.” To do this, it helps to have quantitative ratings for each job. The position analysis questionnaire and the U.S. Department of Labor approach are quantitative methods for doing this.

position analysis questionnaire (PAQ)

A questionnaire used to collect quantifiable data concerning the duties and responsibilities of various jobs.

POSITION ANALYSIS QUESTIONNAIRE The **position analysis questionnaire (PAQ)** is a very popular quantitative job analysis tool, consisting of a questionnaire containing 194 items.¹⁶ The 194 items (such as “written materials”) each represent a basic element that may play a role in the job.¹⁷ The items each belong to one of five PAQ basic activities: (1) Having Decision-Making/Communication/Social Responsibilities, (2) Performing Skilled Activities, (3) Being Physically Active, (4) Operating Vehicles/Equipment, and (5) Processing Information. The final PAQ “score” reflects the job’s rating on each of these five activities. To get those scores, the job analyst decides if each of the 194 items (such as one on using “written materials”) applies to the job and, if so, to what extent. For example, within the “Processing Information” activity section, an item on the extent to which the job requires using “written materials” such as books and reports might get a rating of 4. Since the PAQ scale ranges from 1 to 5, a 4 suggests that written materials do play a significant role in this job. The analyst can use an online version of the PAQ (see www.paq.com) for each job he or she is analyzing.

One of the PAQ’s strengths is in assigning jobs to job classes for pay purposes. With ratings for each job’s decision-making, skilled activity, physical activity, vehicle/equipment operation, and information-processing characteristics, you can quantitatively compare jobs relative to one another,¹⁸ and then classify jobs for pay purposes.¹⁹

DEPARTMENT OF LABOR (DOL) PROCEDURE Experts at the U.S. Department of Labor did much of the early work developing job analysis.²⁰ They used their results to compile what was for many years the bible of job descriptions, the *Dictionary of Occupational Titles*. This mammoth book contained detailed information on virtually every job in America. Internet-based tools have largely replaced the *Dictionary*.²¹

Each worker function has an importance rating. Thus, “coordinating” is 1, whereas “copying” is 5. If you were analyzing the job of a receptionist/clerk, for example, you might label the job 5, 6, 7 to represent copying data, speaking/signaling people, and handling things. You might code a psychiatric aide in a hospital 1, 7, 5 in relation to data, people, and things. In practice, you would score each task that the worker performed as part of his or her job in terms of data, people, and things. Then you would use the highest combination (say 4, 6, 5) to rate the overall job, since this is the highest level that you would expect a successful job incumbent to attain. If you were selecting a worker for that 4, 6, 5 job, you’d expect him or her to be able to at least compute (4), speak/signal (6), and tend (5). If you were comparing jobs for pay purposes, a 4, 6, 5 job should rank higher (see Table 4-1) than a 6, 8, 6 job. The manager can then present a summary of the job along with its 3-digit rating on a form such as in Figure 4-5.²²

Online/Electronic Job Analysis Methods²³

Employers also use online or electronic job analysis methods. Here the human resource department generally distributes standardized job analysis questionnaires to geographically disbursed employees online or on electronic devices, with instructions to complete the forms and return them by a particular date. The job analyst may then convene, online, job experts to discuss and finalize the knowledge, skills, abilities, and other characteristics doing the job requires.²⁴

TABLE 4-1 Basic Department of Labor Worker Functions

	Data	People	Things
Basic Activities	0 Synthesizing 1 Coordinating 2 Analyzing 3 Compiling 4 Computing 5 Copying 6 Comparing	0 Mentoring 1 Negotiating 2 Instructing 3 Supervising 4 Diverting 5 Persuading 6 Speaking/signaling 7 Serving 8 Taking instructions/helping	0 Setting up 1 Precision working 2 Operating/controlling 3 Driving/operating 4 Manipulating 5 Tending 6 Feeding/offbearing 7 Handling

Note: Determine employee's job "score" on data, people, and things by observing his or her job and determining, for each of the three categories, which of the basic functions illustrates the person's job. "0" is high; "6," "8," and "7" are lows in each column.

FIGURE 4-5 Sample Report Based on Department of Labor Job Analysis Technique

Job Analysis Schedule			
1. Established Job Title	DOUGH MIXER		
2. Ind. Assign	(bake prod.)		
3. SIC Code(s) and Title(s)	2051 Bread and other bakery products		
4. JOB SUMMARY:			
Operates mixing machine to mix ingredients for straight and sponge (yeast) doughs according to established formulas, directs other workers in fermentation of dough, and curls dough into pieces with hand cutter.			
5. WORK PERFORMED RATINGS:			
	D	P	(T)
Worker Functions	Data	People	Things
	5	6	2
Work Field	Cooking, Food Preparing		
6. WORKER TRAITS RATING (to be filled in by analyst):			
Training time required			
Aptitudes			
Temperaments			
Interests			
Physical demands			
Environment conditions			

Without a job analyst actually sitting there with the employee or supervisor, there's a chance they won't cover important points or that misunderstandings arise. Therefore, all instructions should be clear, and test the process first.

The U.S. Navy used Internet-based job analysis.²⁵ To keep ambiguities to a minimum, it had the employees complete structured online job analysis forms step by step and duty by duty, as follows:

- First, the online form lists *a set of work activities* (such as “Getting Information” and “Monitor Processes”) from the Department of Labor O*NET work activities list.²⁶
- Next, the form directs employees to *select those work activities* that are important to their job.
- Then, the form asks them to *list actual duties* of their jobs that fit each of those selected work activities. For example, suppose an employee chose “Getting Information” as an important work activity. Now he or she would list next to “Getting Information” specific job duties, such as “bring new orders from our vendors to the boss’s attention.”

Again, the main caveat with online job analysis is to strip the process of ambiguities. The Navy’s online method proved effective.²⁷



LEARNING OBJECTIVE 4-4

Explain how you would write a job description, and what sources you would use.

Writing Job Descriptions

The most important product of job analysis is the job description. A job description is a written statement of what the worker actually does, how he or she does it, and what the job’s working conditions are. You use this information to write a job specification; this lists the knowledge, abilities, and skills required to perform the job satisfactorily.²⁸

HR in Action at the Hotel Paris In reviewing the Hotel Paris’s employment systems, the HR manager was concerned that virtually all the company’s job descriptions were out of date, and that many jobs had no descriptions at all. She knew that without accurate job descriptions, all her improvement efforts would be in vain. To see how this was handled, see the case on page 151 of this chapter.



Diversity Counts

You might assume that job descriptions are only of use in business settings, but that’s not the case. For example, for parents who want the best care for their kids, writing up a job description before hiring a child-care worker could be quite useful. For instance, because what children learn when they’re very young predicts their future academic and career success, facilitating early-childhood learning is a crucial task for many caregivers.²⁹ And yet because few parents think through and write a job description before recruiting their child-care workers, many hire this important person not clearly crystallizing what they want this person to do—including, for instance, facilitating learning.

A well-thought-out job description might benefit everyone involved. The parent—knowing that supporting early-childhood learning is so important—might put more effort into finding and training the child’s caregiver (95% of whom are women). The child might benefit from a more nurturing learning environment. And the caregiver would gain if, after recognizing how many challenging tasks she is responsible for, the parent would raise her salary from the current national average of about \$19,000 per year—just about the poverty level for a family of three. ■

There is no standard format for writing a job description. However, most descriptions contain sections that cover:

1. Job identification
2. Job summary
3. Responsibilities and duties
4. Authority of incumbent
5. Standards of performance
6. Working conditions
7. Job specification

Figure 4-6 present two sample forms of job descriptions.

Job Identification

As in Figure 4-6, the job identification section (on top) contains several types of information.³⁰ The *job title* specifies the name of the job, such as *inventory control clerk*. In the U.S., The Fair Labor Standards Act (FLSA) status section identifies the job as exempt or nonexempt. (Under the FLSA, certain positions, primarily administrative and professional, are exempt from the act's overtime and minimum wage provisions.) In India also, there is clear distinction between worker jobs (generally unionized) and non worker or supervisor/executive jobs. The distinction is made on the basis of definitions in labor laws. In Indian government, jobs are classified into Group A, B and C categories. *Date* is the date the job description was approved.

There may also be a space to indicate who approved the description and perhaps one showing the job's location in terms of facility/division and department. This section might also include the supervisor's title and information regarding salary and/or pay scale. There might also be space for the pay grade/level of the job, if there is one. For example, a firm may classify programmers as programmer II, programmer III, and so on.

WHAT'S IN A NAME (OR IN A JOB TITLE)? Some job titles are quite creative. For example, Pinterest calls its designers Pixel Pushers, and its interns Pinterns.³¹ Its common for Indian IT industry to call all employees Associates or Team Members. One study concluded that employees who participate in retitling their jobs and who have more descriptive job titles tend to be more satisfied and to feel more recognized.³²

The U.S. Navy discovered that the hard way. From the Navy's earliest days, sailors traditionally had descriptive job titles such as "electrician's mate first class." In part to strip its job titles of gender-specific labels containing "man" or "men," the Navy decided to group all sailors with the same pay rate together, with the same (bland) job title such as "petty officer first class."³³ An uproar ensued. A petition with over 100,000 signatures got to the White House. The Navy returned to its traditional job titles. Similarly, Indian Railways has titled train drivers as "Loco Pilots".

Job Summary

The job summary should summarize the essence of the job, and should include only its major functions or activities. Thus (in Figure 4-6), the tele-sales rep "... is responsible for selling college textbooks. ..." For the job of mailroom supervisor, "the mailroom supervisor receives, sorts, and delivers all incoming mail properly, and he or she handles all outgoing mail including the accurate and timely posting of such mail."³⁴

JOB TITLE: Telesales Representative	JOB CODE: 100001
RECOMMENDED SALARY GRADE:	EXEMPT/NONEXEMPT STATUS:
JOB FAMILY: Sales	EEOC: Sales Workers
DIVISION: Higher Education	REPORTS TO: District Sales Manager
DEPARTMENT: In-House Sales	LOCATION: Mumbai
	DATE: April 2013

SUMMARY (Write a brief summary of job.)

The person in this position is responsible for selling college textbooks, software, and multimedia products to professors, via incoming and outgoing telephone calls, and to carry out selling strategies to meet sales goals in assigned territories of smaller colleges and universities. In addition, the individual in this position will be responsible for generating a designated amount of editorial leads and communicating to the publishing groups product feedback and market trends observed in the assigned territory.

SCOPE AND IMPACT OF JOB

Dollar responsibilities (budget and/or revenue)

The person in this position is responsible for generating approximately ₹2 million in revenue, for meeting operating expense budget of approximately ₹40,000, and a sampling budget of approximately 10,000 units.

Supervisory responsibilities (direct and indirect)

None

Other

REQUIRED KNOWLEDGE AND EXPERIENCE (Knowledge and experience necessary to do job)

Related work experience

Prior sales or publishing experience preferred. One year of company experience in a customer service or marketing function with broad knowledge of company products and services is desirable.

Formal education or equivalent

Bachelor's degree with strong academic performance or work equivalent experience.

Skills

Must have strong organizational and persuasive skills. Must have excellent verbal and written communications skills and must be PC proficient.

Other

Limited travel required (approx 5%)

(Continued)

FIGURE 4-6 Sample Job Description, Pearson Education

Source: Reprinted and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

Some experts state unequivocally that “one item frequently found that should never be included in a job description is a ‘cop-out clause’ like ‘other duties, as assigned,’”³⁵ since this leaves open the nature of the job. Finally, state in the summary that the employee is expected to carry out his or her duties efficiently, attentively, and conscientiously.

PRIMARY RESPONSIBILITIES (List in order of importance and list amount of time spent on task.)

Driving Sales (60%)

- Achieve quantitative sales goal for assigned territory of smaller colleges and universities.
- Determine sales priorities and strategies for territory and develop a plan for implementing those strategies.
- Conduct 15–20 professor interviews per day during the academic sales year that accomplishes those priorities.
- Conduct product presentations (including texts, software, and Web site); effectively articulate author’s central vision of key titles; conduct sales interviews using the PSS model; conduct walk-through of books and technology.
- Employ telephone selling techniques and strategies.
- Sample products to appropriate faculty, making strategic use of assigned sampling budgets.
- Close class test adoptions for first edition products.
- Negotiate custom publishing and special packaging agreements within company guidelines.
- Initiate and conduct in-person faculty presentations and selling trips as appropriate to maximize sales with the strategic use of travel budget. Also use internal resources to support the territory sales goals.
- Plan and execute in-territory special selling events and book-fairs.
- Develop and implement in-territory promotional campaigns and targeted email campaigns.

Publishing (editorial/marketing) 25%

- Report, track, and sign editorial projects.
- Gather and communicate significant market feedback and information to publishing groups.

Territory Management 15%

- Track and report all pending and closed business in assigned database.
- Maintain records of customer sales interviews and adoption situations in assigned database.
- Manage operating budget strategically.
- Submit territory itineraries, sales plans, and sales forecasts as assigned.
- Provide superior customer service and maintain professional bookstore relations in assigned territory.

Decision-Making Responsibilities for This Position:

Determine the strategic use of assigned sampling budget to most effectively generate sales revenue to exceed sales goals.

Determine the priority of customer and account contacts to achieve maximum sales potential.

Determine where in-person presentations and special selling events would be most effective to generate the most sales.

Submitted By: Jim Smith, District Sales Manager	Date: April 10, 2013
Approval:	Date:
Human Resources:	Date:
Corporate Compensation:	Date:

Relationships

There may be a “relationships” statement (not in Figure 4-6) that shows the jobholder’s relationships with others inside and outside the organization. The following presents some illustrative relationships for a human resource manager.³⁶

Reports to: Vice president of employee relations.

Supervises: Human resource clerk, test administrator, labor relations director, and one secretary.

Works with: All department managers and executive management.

Outside the company: Employment agencies, executive recruiting firms, union representatives, state and central government offices, and various vendors.³⁷

Responsibilities and Duties

This is the heart of the job description. It should present a list of the job’s responsibilities and duties. As in Figure 4-6, list each of the job’s major duties separately, and describe it in a few sentences. In the figure, for instance, the job’s duties include “achieve quantitative sales goal . . .” and “determine sales priorities. . . .” Typical duties for other jobs might include making accurate postings to accounts payable, maintaining favorable purchase price variances, and repairing production-line tools and equipment. This section may also define the jobholder’s authority limits. For example, the jobholder might have authority to approve purchase requests up to ₹5,000, grant time off or leaves of absence, discipline department personnel, recommend salary increases, and interview and hire new employees.

Usually, the manager’s basic question here is, “How do I determine what the job’s duties are and should be?” The answer first is, from the *job analysis*; this should reveal what the employees on each job are doing now.

Second, you can review various sources of standardized job description information. In India, the National Classification of Occupation (NCO) plays a very important role in maintaining the standards of occupation, and it is used in the network of employment exchanges. The codes help in job search and job postings. Also, the classification is used in all census and sample surveys conducted in India. However, the system has not become popular in the private sector.³⁸

The employer may also use other popular sources of job description information, such as www.jobdescription.com. Another simple solution is just to *Google* the job description you want, by seeing online what others are doing. Thus, someone writing job descriptions for *marketing manager* would readily find relevant online descriptions using methods like these:

- Go to <http://hiring.monster.com>. Then click Resource Center, then Recruiting and Hiring Advice, then Job Descriptions. Then find the Marketing and Sales Manager Sample Job Description.³⁹



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Social media is helping to democratize HR by enabling line managers to do things for which they formerly required HR managers, thus bypassing them. For example, the hiring manager can easily unearth job titles and duties using social media like LinkedIn. Thus, (to paraphrase what someone posted on LinkedIn): *I hope some of you IT recruiters out there can help me to better understand what I need to put into the job descriptions that I'm writing for the developers and development managers I'm recruiting for.* The first of many replies listed 12 tasks including: (1) Do technical skills match the desired job?, (2) What technical problems were solved by the job seeker?, and (3) Did job seeker know about Cloud Deployment?⁴⁰ ■

Some of the job titles you'll find on social media may be more creative than usable. For example, many Indian companies call employees as "Associates". Writing clear job duties is an art. For a teacher, for example, one duty might be:⁴¹

Incorrect: Ensures that students learn fifth-class English with the aim of passing the required common exam.

Comment: What the teacher does is ambiguous, and the expected process and results of the teacher's actions aren't clear.

Correct: Studies past common English exams to understand what they typically involve; prepares yearly, weekly, and daily lesson plans; presents each day's lesson clearly with follow-up questions to ensure learning; administers weekly tests to confirm learning; and counsel students one-on-one in class lessons as necessary.



KNOW YOUR EMPLOYMENT LAW

Some of the labor legislations also specify job requirements. This is more clear for disabled employees. If the disabled individual can't perform the job as currently structured, the employer is required to make a "reasonable accommodation," unless doing so would present an "undue hardship." In India, the Rights of Persons with Disability Act 2016 and the rules under it specify the job requirements and accommodations to be made. The EEOC Law of U.S. says reasonable accommodation may include (examples of few Indian companies are given):

- acquiring or modifying equipment or devices, (e.g., Microsign Industries Bhavnagar, Gujarat uses custom machinery for the disabled employees),
- job redesign/restructuring, part-time or modified work schedules (giving an additional grace time for entry or exit),
- reassignment to a vacant position, adjusting or modifying examinations, training materials, or policies, (In the selection tests conducted by IBPS for Indian banks, blind candidates are allowed the use of scribes and extra time).⁴²
- providing readers and interpreters, and

- making the workplace readily accessible to and usable by people with disabilities (by putting ramps, safety guards, warning lights, etc.)
- providing required support in places like restrooms, lunch halls, parking lots, etc., ■

Standards of Performance and Working Conditions

A “standards of performance” section lists the standards the company expects the employee to achieve for each of the job description’s main duties and responsibilities. One way to set standards is to finish the statement, “I will be completely satisfied with your work when” This sentence, completed for each duty, should produce a usable set of performance standards. For example:

Duty: Accurately Posting Accounts Payable

1. Post all invoices received within the same working day.
2. Route all invoices to the proper department managers for approval no later than the day following receipt.
3. Commit an average of no more than three posting errors per month.

Finally, the job description may list the job’s working conditions, such as noise level or hazardous conditions.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Using O*NET- A U.S. Context Example

Without their own job analysts or even HR managers, many small business owners face two hurdles when doing job analyses. First, most need a more streamlined approach than those provided by questionnaires like Figure 4-4. Second is the concern that, in writing their job descriptions, they’ll overlook duties that should be assigned. What they need is an encyclopedia listing all the possible positions they might encounter, including a list of the duties normally assigned to these positions.

The small business owner has at least three options. The *Standard Occupational Classification*, provides detailed descriptions of thousands of jobs and their human requirements. Web sites like www.jobdescription.com provide customizable descriptions by title and industry. And the Department of Labor’s O*NET is a third alternative. We’ll focus here on how to write a job description using O*NET (<http://online.onetcenter.org>).⁴³ It is free to use. The steps involved are:

STEP 1. Review Your Plan. Ideally, the jobs you need should flow from your departmental or company plans. Do you plan to enter or exit businesses? What do you expect your sales to be in the next few years? What departments will have to be expanded or reduced? What kinds of new positions will you need?

STEP 2. Develop an Organization Chart. Start with the organization as it is now. Then produce a chart showing how you want it to look in a year or two. Microsoft Office and others offer free tools.⁴⁴

Standard Occupational Classification (SOC)

Classifies all workers into one of 23 major groups of jobs that are subdivided into minor groups of jobs and detailed occupations.

STEP 3. Use a Job Analysis Questionnaire. Next, gather information about each job's duties. (You can use job analysis questionnaires, such as those shown in Figures 4-4 and 4-7.)

STEP 4. Obtain Job Duties from O*NET or any other source. The list of job duties you uncovered through the job analysis in step 3 may or may not be complete. We'll therefore use O*NET to compile a more complete list. (Refer to the A, B, and C examples pictured.)

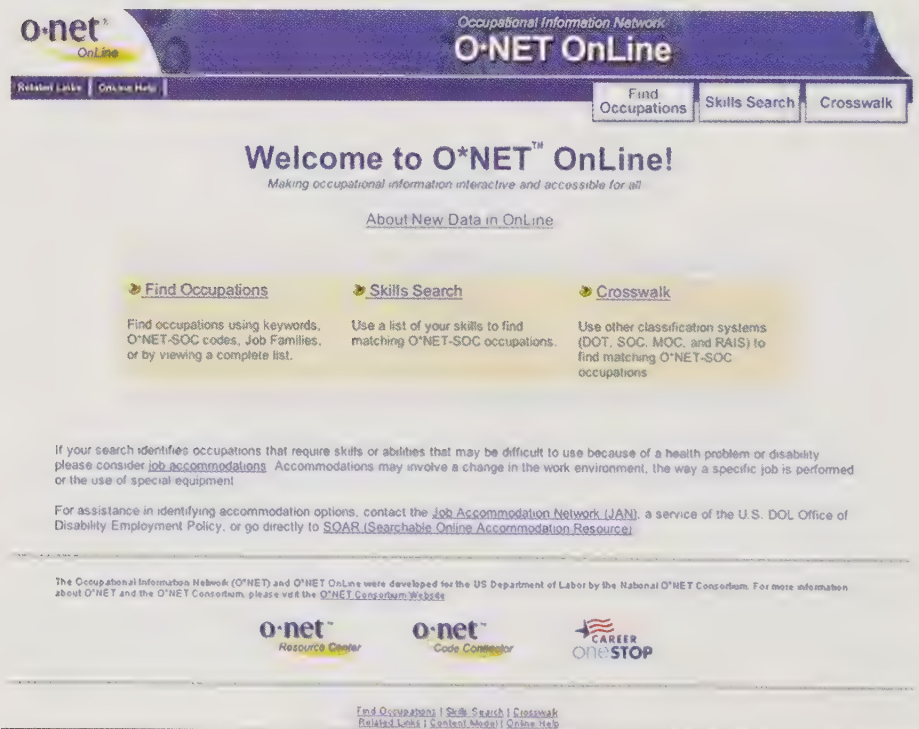
Start by going to www.onetonline.org⁴⁵ (A). Here, click on *Find Occupations*. Assume you want to create job descriptions for a retail salesperson. Key *Retail Sales* in the Industry Keyword drop-down box. This brings you to the Occupations matching "retail sales" page (B).⁴⁶

Clicking on the *Retail Salespersons* summary produces the job summary and specific occupational duties for retail salespersons (C).⁴⁷ For a small store, you might want to combine the duties of the "retail salesperson" with those of "first-line supervisors/managers of retail sales workers."

STEP 5. List the Job's Human Requirements from O*NET. Next, return to the summary for *Retail salespersons* (C). Here, click, for example, Knowledge, Skills, and Abilities. Use this information to help develop a job specification for your job. Use this information for recruiting, selecting, and training your employees.

STEP 6. Finalize the Job Description. Finally, perhaps using Figure 4-7 as a guide, write an appropriate job summary for the job. Then use the information obtained previously in steps 4 and 5 to create a complete listing of the tasks, duties, and human requirements of each of the jobs you will need to fill. ■

Source: Reprinted by permission of O*NET OnLine.



A (above)



O*NET OnLine

Occupational Information Network

O*NET OnLine

[Related Links](#)
[OnLine Help](#)

Find Occupations

Skills Search

Crosswalk

Job Family Search Results for:

Sales and Related (30 matches)

Sales and Related Go

O*NET-SOC Code	O*NET-SOC Title	Reports (Data)		
41-1011.00	First-Line Supervisors/Managers of Retail Sales Workers	Summary	Details	Custom
41-1012.00	First-Line Supervisors/Managers of Non-Retail Sales Workers	Summary	Details	Custom
41-2011.00	Cashiers	Summary	Details	Custom
41-2012.00	Gaming Change Persons and Booth Cashiers	Summary	Details	Custom
41-2021.00	Counter and Rental Clerks	Summary	Details	Custom
41-2022.00	Parts Salespersons	Summary	Details	Custom
41-2031.00	Retail Salespersons	Summary	Details	Custom
41-3011.00	Advertising Sales Agents	Summary	Details	Custom
41-3021.00	Insurance Sales Agents	Summary	Details	Custom
41-3031.00	Securities, Commodities, and Financial Services Sales Agents	Summary	Details	Custom
41-3031.01	Sales Agents, Securities and Commodities	Summary	Details	Custom
41-3031.02	Sales Agents, Financial Services	Summary	Details	Custom
41-3041.00	Travel Agents	Summary	Details	Custom
41-3099.99	Sales Representatives, Services, All Other	Summary	Details	Custom
41-4011.00	Sales Representatives, Wholesale and Manufacturing, Technical and Scientific Products	Summary	Details	Custom
41-4011.01	Sales Representatives, Agricultural	Summary	Details	Custom
41-4011.02	Sales Representatives, Chemical and Pharmaceutical	Summary	Details	Custom
41-4011.03	Sales Representatives, Electrical/Electronic	Summary	Details	Custom

B (above)

Updated 2003

Summary Report for:

41-2031.00 - Retail Salespersons

Sell merchandise, such as furniture, motor vehicles, appliances, or apparel in a retail establishment

[Tasks](#) | [Knowledge](#) | [Skills](#) | [Abilities](#) | [Work Activities](#) | [Work Context](#) | [Job Zone](#) | [Interests](#) | [Work Styles](#) | [Work Values](#) | [Related Occupations](#) | [Wages & Employment](#)

Tasks

- Greet customers and ascertain what each customer wants or needs.
- Open and close cash registers, performing tasks such as counting money, separating charge slips, coupons, and vouchers, balancing cash drawers, and making deposits.
- Maintain knowledge of current sales and promotions, policies regarding payment and exchanges, and security practices.
- Compute sales prices, total purchases and receive and process cash or credit payment
- Maintain records related to sales
- Watch for and recognize security risks and thefts, and know how to prevent or handle these situations
- Recommend, select, and help locate or obtain merchandise based on customer needs and desires
- Answer questions regarding the store and its merchandise.
- Describe merchandise and explain use, operation, and care of merchandise to customers
- Ticket, arrange and display merchandise to promote sales

[back to top](#)

Knowledge

Customer and Personal Service — Knowledge of principles and processes for providing customer and personal services. This includes customer needs assessment, meeting quality standards for services, and evaluation of customer satisfaction.

Sales and Marketing — Knowledge of principles and methods for showing, promoting, and selling products or services. This includes marketing strategy and tactics, product demonstration, sales techniques, and sales control systems.

Administration and Management — Knowledge of business and management principles involved in strategic planning, resource allocation, human resources modeling, leadership technique, production methods, and coordination of people and resources.

Education and Training — Knowledge of principles and methods for curriculum and training design, teaching and instruction for individuals and groups, and the measurement of training effects.

Mathematics — Knowledge of arithmetic, algebra, geometry, calculus, statistics, and their applications.

English Language — Knowledge of the structure and content of the English language including the meaning and spelling of words, rules of composition, and grammar

C (above)

FIGURE 4-7 Simple Job Description Questionnaire

Source: Copyright Gary Dessler, PhD.

Background Data for Job Description	
Job Title _____	Department _____
Job Number _____	Written by _____
Today's Date _____	Applicable DOT Codes _____

I. Applicable DOT Definition(s):

II. Job Summary:

(List the more important or regularly performed tasks.)

III. Reports To:**IV. Supervises:** _____**V. Job Duties:** _____

(Briefly describe, for each duty, what employee does and, if possible, how employee does it. Show in parentheses at end of each duty the approximate percentage of time devoted to duty.)

A. Daily Duties:

B. Periodic Duties:

(Indicate whether weekly, monthly, quarterly, etc.)

C. Duties Performed at Irregular Intervals:

**LEARNING OBJECTIVE 4-5**

Explain how to write a job specification.

Writing Job Specifications

The job specification takes the job description and answers the question, “What human traits and experience are required to do this job effectively?” It shows what kind of person to recruit and for what qualities you should test that person. It may be a section of the job description, or a separate document. Often—as in Figure 4-6 (“REQUIRED KNOWLEDGE AND EXPERIENCE”) on pages 135–136—it is part of the job description.⁴⁸

Specifications for Trained versus Untrained Personnel

Writing job specifications for trained and experienced employees is relatively straightforward. Here job specifications tend to focus on factors such as length of previous service, quality of relevant training, and previous job performance.

Filling jobs with untrained employees requires identifying the personal traits that predict performance.

Joerg Boethling / Alamy Stock Photo



The problems are more complex when you're filling jobs with untrained people (with the intention of training them on the job). Here you must specify qualities such as physical traits, personality, interests, or sensory skills that imply some potential for performing the job or for trainability. Thus, for a job that requires detailed manipulation, you might want someone who scores high on a test of finger dexterity. Employers identify the job's human requirements either through a subjective, judgmental approach or through statistical analysis (or both).

Specifications Based on Judgment

Most job specifications simply reflect the educated guesses of people like supervisors and human resource managers. The basic procedure here is to ask, "What does it take in terms of education, intelligence, training, and the like to do this job well?"

How does one make such "educated guesses"? You could simply review the job's duties, and deduce from those what human traits and skills the job requires. You can also choose human traits and skills from those listed in Web-based job descriptions like those at www.jobdescription.com. (For example, one job description there lists "Generates creative solutions" and "Manages difficult or emotional customer situations.")

In any case, use common sense. Don't ignore behaviors that may apply to almost any job but that might not normally surface through a job analysis. Industriousness is an example. Who wants an employee who doesn't work hard? One researcher collected information from 18,000 employees in 42 different hourly entry-level jobs.⁴⁹ Generic work behaviors that he found to be important to all jobs included thoroughness, attendance, unruliness [lack of], and scheduling flexibility (for instance, offers to stay late when store is busy). Another study, of over 7,000 executives, found that crucial top-leader behaviors included: takes initiative, practices self-development, displays high integrity, drives for results, and develops others.⁵⁰

HR AND THE GIG ECONOMY DO GIG WORKERS NEED JOB SPECIFICATIONS?

Hiring nonemployee gig workers doesn't mean the employer doesn't need job descriptions and job specifications. The employer must still ensure that the workers at least fit certain minimum requirements.

Therefore Uber and Ola list "driver requirements," which are essentially job specifications. Driver requirements vary somewhat by location, but both require drivers to be at least 21, have Aadhaar driver's license insurance, and are expected to undergo background checks. For Uber the background check also requires no recent drug-related offenses, or incidents of driving without insurance or license, or fatal accidents, or history of reckless driving, and no criminal history. And your car must pass muster. Online food delivery company Swiggy also follows similar approach and documentation.⁵¹

Job Specifications Based on Statistical Analysis

Basing job specifications on statistical analysis (rather than only judgment) is more defensible, but it's also more difficult. The aim is to determine statistically the relationship between (1) some *predictor* (human trait such as height, intelligence, or finger dexterity), and (2) some indicator or *criterion* of job effectiveness, such as performance as rated by the supervisor. The basic procedure is predictive validation.

This procedure has five steps: (1) analyze the job and decide how to measure job performance, (2) select personal traits like finger dexterity that you believe should predict performance, (3) test candidates for these traits, (4) measure these candidates' subsequent job performance, and (5) statistically analyze the relationship between the human trait (finger dexterity) and job performance. Your aim is to determine whether the trait predicts performance.

Why is this more defensible than the judgmental approach? First, if the trait doesn't predict performance, why use it? Second, equal rights laws prohibit using traits that you can't prove distinguish between high and low job performers. But, in practice, most employers rely on judgmental approaches. Recently, Artificial Intelligence (AI) applications have found a place in hiring, developing better job specifications so that better skillset match can be made.⁵²

The Job-Requirements Matrix

Although most employers use job descriptions and specifications to summarize their jobs' duties and responsibilities, the **job-requirements matrix** is also popular.⁵³ A typical matrix lists the following information, in five columns:

Column 1: Each of the job's four or five *main job duties* (such as *post accounts payable*)

Column 2: The *task statements* for the main tasks associated with each main job duty

Column 3: The relative *importance* of each main job duty

Column 4: The *time spent* on each main job duty

Column 5: The *knowledge, skills, ability, and other* human characteristics (KSAO) related to each main job duty⁵⁴

The main step in creating a job-requirements matrix involves writing the *task statements*. Each **task statement** describes *what* the worker does on each of a main job duty's separate job tasks and *how* the worker does it.

Employee Engagement Guide for Managers

As noted earlier, the manager should not ignore, while writing the job specification, desirable on-the-job behaviors that apply to almost any job but that might not normally surface through a job analysis. *Employee engagement* is an example.

The human resource consulting company Development Dimensions International conducted a study of 3,800 employees, and identified several personal characteristics that seemed to predict the likelihood someone would be engaged.⁵⁵ These traits included adaptability, passion for work, emotional maturity, positive disposition, self-advocacy, and achievement orientation.

A sensible suggestion is to seek out people who already have records of being engaged employees. Because past behavior is often the best predictor of future behavior, one suggestion is that if you want to hire people who are more likely to become engaged employees, “. . . look for examples of engagement in other

job-requirements matrix

A more complete description of what the worker does and how and why he or she does it; it clarifies each task's purpose and each duty's required knowledge, skills, abilities, and other characteristics.

task statement

Written item that shows *what* the worker does on one particular job task; *how* the worker does it; the *knowledge, skills, and aptitudes* required to do it; and the *purpose* of the task.

areas of life.”⁵⁶ For example, seek out candidates with a demonstrated commitment to serve others, such as nurses, ex-service personnel, and voluntary first responders. Another common approach is Stay Interviews, (SI) conducted periodically for long staying employees or those at risk employees with the objective of improving engagement. Indian companies like Marico, Hexaware Technologies and RPG Group conducts stay interviews.⁵⁷ SI is a powerful communication mechanism which can increase the retention of talented employees.⁵⁸ According to a report, Si results in 30 to 40% of employees staying longer and engaged.⁵⁹

LEARNING OBJECTIVE 4-6

Give examples of competency-based job analysis.

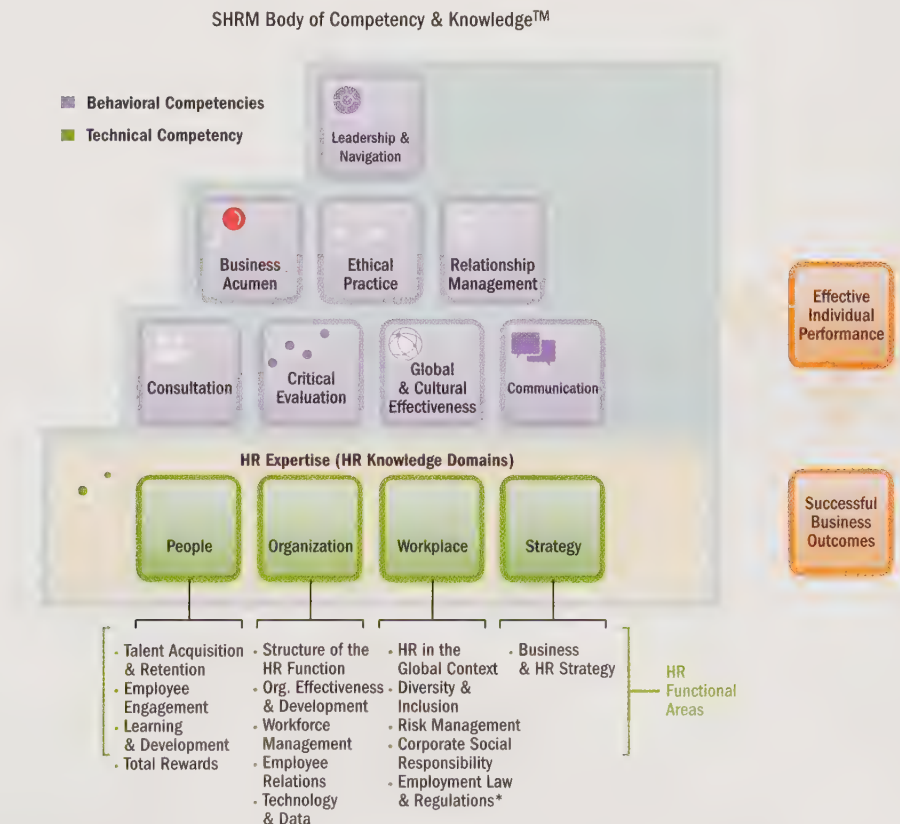
Using Competencies Models

Many people still think of a “job” as a set of specific duties someone carries out for pay, but the concept of job is changing. Companies today continue to flatten their hierarchies, squeezing out managers, and leaving the remaining workers with more jobs to do. Changes like these tend to blur where one job starts and another ends. In situations like these, relying on a list of job duties that itemizes specific things you expect the worker to do is often impractical.⁶⁰

Many employers are therefore using a different job analysis approach. Instead of listing the job’s duties, they list, in *competency models* (or profiles), the knowledge, skills, and experience someone needs to do the job. Such models or profiles (see Figure 4-8) list the competencies employees must be able to exhibit to get their jobs done.⁶¹ In creating a competency model for HR managers, the Society for Human Resource Management describes a competency as a “cluster of highly interrelated attributes” (such as research design knowledge, critical thinking skills, and deductive reasoning abilities)

FIGURE 4-8 HR Manager Competency Model

Source: The SHRM Body of Competency and Knowledge.
©2014, Society for Human Resource Management, Alexandria, VA. Used with permission. All rights reserved.



*Application only to examinees testing within the U.S.

that give rise to the behaviors (such as *critical evaluation*) someone would need to perform a given job (in this case, HR manager) effectively.⁶²

The competency model or profile then becomes the guidepost for recruiting, selecting, training, evaluating, and developing employees for each job.⁶³ In other words, the manager *hires* new employees using tests that measure the profile's list of competencies, *trains* employees with courses that develop these competencies, and *appraises* performance by assessing the worker's competencies. The accompanying Strategic Context feature illustrates.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Daimler Alabama

By 2020, Daimler intends to use its expanded Tuscaloosa, Alabama factory complex to start building hybrid and (eventually) electric SUVs.⁶⁴ That's a step it could take because its original factory there, which came on line about 20 years before, has been so successful.

In planning its original Alabama Mercedes-Benz factory, Germany-based Daimler's strategy was to design a high-tech factory.⁶⁵ The plant emphasizes *just-in-time* inventory methods, so inventories stay negligible due to the arrival "just in time" of parts. It also organizes employees into *work teams*, and emphasizes that all employees must dedicate themselves to *continuous improvement* (seeking continuously to find better ways to do things).

Such a production strategy requires certain employee competencies (skills and behaviors). For example, it requires multiskilled and flexible employees who are eager to work cooperatively in teams.

Competency-based job analysis played an important role in this factory. Guidelines here regarding whom to hire and how to train them are based more on the competencies someone needs to do the job (such as "ability to work cooperatively on a team") than on lists of job duties. Because employees don't have to follow detailed job descriptions showing what "my job" is, it's easier for employees to move from job to job within their teams. Not being pigeonholed also encourages workers to look beyond their own jobs to find ways to improve things. For instance, one team found a \$0.23 plastic prong that worked better than the one for \$2.50 the plant was using to keep car doors open during painting. Building its modern "continuous improvement" plant meant Daimler needed employees who thought for themselves. Organizing its jobs around worker competencies and using **competency-based job analysis** helped Daimler achieve its strategic aims here.

competency-based job analysis

Describing the job in terms of measurable, observable, behavioral competencies (knowledge, skills, and/or behaviors) that an employee doing that job must exhibit to do the job well.

How to Write Competencies Statements

The process for identifying a job's required competencies (competency-based job analysis—describing the job in terms of measurable, observable, behavioral competencies) is similar to a traditional job analysis. Thus, you might interview job incumbents and ask about job responsibilities and activities, and required skills and knowledge.

But instead of compiling lists of job duties, your aim is to finish the statement, "*In order to perform this job competently, the employee should be able to . . .*" Use your knowledge of the job to answer this, or the worker's or supervisor's insights, or use information from a public source. Then, for each competency write a *competency statement*.

A good competency statement includes three elements.⁶⁶ One is the *name* and a *brief description* of the competency, such as "Project Management—creating accurate and effective project schedules." The second is a *description of the observable behaviors* that represent proficiency in the competency, such as "continuously manage project risks and dependencies by making timely decisions." Third are *proficiency levels*. For example (for project management from low to high):⁶⁷

FIGURE 4-9 Skills Matrix

Note: This is an example of a skills matrix for technical/engineering product development employees. The blue numbered boxes show the level required for each skill for these product development employees. An accompanying key would provide specific examples for each level of each skill, with difficulty increasing for each skill level starting at Level 1. For example, Level 1 for Technical Expertise/Skills might say “has or is in process of acquiring the basic knowledge necessary to do this type of job,” while Level 6 might say, “Capable of conducting and supervising highly complex analytical tasks requiring advanced technical know-how and skills.”

Source: Copyright Gary Dessler, PhD.

Level 6	6	6	6	6	6
Level 5	5	5	5	5	5
Level 4	4	4	4	4	4
Level 3	3	3	3	3	3
Level 2	2	2	2	2	2
Level 1	1	1	1	1	1
	Technical Expertise/Skills	Decision-Making and Problem Solving Skills	Interpersonal Skills	Leadership Skills	Commercial Awareness Skills

- **Proficiency Level 1.** Identify project risks and dependencies and communicate routinely to stakeholders
- **Proficiency Level 2.** Develop systems to monitor risks and dependencies and report changes
- **Proficiency Level 3.** Anticipate changing conditions and impact to risks and dependencies and take preventive action

BP EXAMPLE British Petroleum’s (BP’s) exploration division executives wanted to shift employees from a job duties-oriented “that’s-not-my-job” attitude to one that motivated employees to obtain the skills required to accomplish broader responsibilities.⁶⁸

Their solution was a skills matrix like that in Figure 4-9. They had skills matrices for each job or job family (such as drilling managers). As in Figure 4-9, each matrix listed (1) the types of skills required to do that job, such as technical expertise, and (2) the minimum skill required for proficiency at each level. The figure’s note shows how to actually use the matrix.

BP’s talent management efforts in this unit could now focus on recruiting, hiring, training, appraising, and rewarding employees based on the set of skills employees need to perform the job in question.

Chapter Review

Chapter Section Summaries

4-1. Employers today often view all the staff–train–reward activities as part of a single integrated talent management **process**. Talent management is *the holistic, integrated, and results and goal-oriented process of planning, recruiting, selecting, developing, managing, and compensating employees*. Taking a talent management perspective means: keep in mind that the talent management tasks are

parts of a single interrelated talent management process; make sure talent management decisions such as staffing and pay are goal-directed; use the same “profile” for formulating recruitment plans for a job as you do for making selection, training, appraisal, and payment decisions for it; and integrate all the talent management functions.

- 4-2. **Job analysis** is the procedure through which you determine the duties of the department's positions and the characteristics of the people to hire for them. Job descriptions are a list of what the job entails, while job specifications identify what kind of people to hire for the job. The job analysis itself involves collecting information on matters such as work activities; required human behaviors; and machines, tools, and equipment used. The basic steps in job analysis include deciding on the use of the job analysis information, reviewing relevant background information, analyzing the job, verifying the information, and developing job descriptions and job specifications.
- 4-3. There are various **methods for collecting job analysis information**. These include interviews, questionnaires, observation, participant diary/logs, and quantitative techniques such as position analysis questionnaires. Employers increasingly collect information from employees via the Internet.
- 4-4. Managers should know how to **write job descriptions**. While there is no standard format, most descriptions contain sections that cover job identification, a job summary, a listing of responsibilities and duties, the job incumbent's authority, and performance standards. It may also contain information regarding the job's working conditions and the job specifications. Many employers use Internet sources such as www.jobdescription.com to facilitate writing job descriptions.
- 4-5. In **writing job specifications**, distinguish between specifications for trained versus untrained personnel. For trained employees, you're looking primarily for traits like experience. For untrained personnel, you should identify traits that might predict success on the job. Most job specifications come from the educated guesses of people like supervisors, and are based mostly on judgment. Some employers use statistical analyses to identify predictors or human traits that relate to success on the job. Human traits that may predict the job candidates' likelihood to be *engaged* and that the manager might therefore want to include in the job specification include adaptability, passion for work, emotional maturity, positive disposition, self-advocacy, achievement orientation, and a work history that includes a demonstrated commitment to serve others.
- 4-6. With **competencies models** and profiles, the aim is to create descriptions of what is required for exceptional performance in a given role or job, in terms of required competencies, knowledge, and experience. Each job's profile then becomes the benchmark for creating recruitment, selection, training, and evaluation and development plans for each job. *Competency-based job analysis* means describing the job in terms of measurable, observable, behavioral competencies (such as skills).

Discussion Questions

- 4-1. Why, in summary, should managers think of staffing, training, appraising, and paying employees as a talent management process?
- 4-2. What items are typically included in the job description?
- 4-3. We discussed several methods for collecting job analysis data—questionnaires, the position analysis questionnaire, and so on. Compare and contrast these methods, explaining what each is useful for and listing the pros and cons of each.
- 4-4. Describe the types of information typically found in a job specification.
- 4-5. Explain how you would conduct a job analysis.
- 4-6. Do you think all companies can really do without detailed job descriptions? Why or why not?
- 4-7. Explain how you would create a job-requirements matrix for a job.
- 4-8. In a company with only 25 employees, is there less need for job descriptions? Why or why not?

Individual and Group Activities

- 4-9. Working individually or in groups, obtain copies of job descriptions for clerical positions at the college or university where you study, or the firm where you work. What types of information do they contain? Do they give you enough information to explain what the job involves and how to do it? How would you improve on the description?
- 4-10. Working individually or in groups, use information available in ugc.ac.in or job sites like Naukri or Monster to develop a job description for your professor in this class. Based on that, use your judgment to develop a job specification. Compare your conclusions with those of other students or groups. Were there any significant differences? What do you think accounted for the differences?
- 4-11. Appendices A and B at the end of this book (pages 612–632) list the knowledge



someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or Appendix B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

The Instructor's Job Description

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Purpose: The purpose of this exercise is to give you experience in developing a job description, by developing one for your instructor.

Required Understanding: You should understand the mechanics of job analysis and be thoroughly familiar with the job analysis questionnaires. (See Figures 4-4 and 4-7.)

How to Set Up the Exercise/Instructions: Set up groups of several students for this exercise. As in all exercises in this book, the groups should be separated and should not converse with each other. Half of the groups in the class will develop the job description using the job analysis questionnaire (Figure 4-4), and the other half of the groups will develop it using the job description questionnaire (Figure 4-7). Each student should review his or her questionnaire (as appropriate) before joining his or her group.

- 4-12. Each group should do a job analysis of the instructor's job: Half of the groups will use the Figure 4-4 job analysis questionnaire for this purpose, and half will use the Figure 4-7 job description questionnaire.
- 4-13. Based on this information, each group will develop its own job description and job specification for the instructor.
- 4-14. Next, each group should choose a partner group, one that developed the job description and job specification using the alternate method. (A group that used the job analysis questionnaire should be paired with a group that used the job description questionnaire.)
- 4-15. Finally, within each of these new combined groups, compare and critique each of the two sets of job descriptions and job specifications. Did each job analysis method provide different types of information? Which seems superior? Does one seem more advantageous for some types of jobs than others?

Application Case

The Flood

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In August 2017, hurricane Maria hit Miami, Florida, and the Optima Air Filter Company. Many employees' homes were devastated. Optima found that it had to hire almost three completely new crews, one for each shift. The problem was that the "old-timers" had known their jobs so well that no one had ever bothered to draw up job descriptions for them. When about 30 new employees began taking their places, there was general confusion about what they should do and how they should do it.

The flood quickly became old news to the firm's out-of-state customers, who wanted filters, not excuses. Phil Mann, the firm's president, was at his wits' end. He had about 30 new employees,

10 old-timers, and his original factory supervisor, Maybelline. He decided to meet with Linda Lowe, a consultant from the local university's business school. She immediately had the old-timers fill out a job questionnaire that listed all their duties. Arguments ensued almost at once: Both Phil and Maybelline thought the old-timers were exaggerating to make themselves look more important, and the old-timers insisted that the lists faithfully reflected their duties. Meanwhile, the customers clamored for their filters.

Questions

- 4-16. Should Phil and Linda ignore the old-timers' protests and write the job descriptions as they see fit? Why? Why not? How would you go about resolving the differences?
- 4-17. How would you have conducted the job analysis? What should Phil do now?

Continuing Case

Carter Cleaning Company

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The Job Description

Based on her review of the stores, Jennifer concluded that one of the first matters she had to attend to involved developing job descriptions for her store managers.

As Jennifer tells it, her lessons regarding job descriptions in her basic management and HR management courses were insufficient to convince her of the pivotal role job descriptions actually play in the smooth functioning of an enterprise. Many times during her first few weeks on the job, Jennifer found herself asking one of her store managers why he was violating what she knew to be recommended company policies and procedures. Repeatedly, the answers were either "Because I didn't know it was my job" or "Because I didn't know that was the way we were supposed to do it." Jennifer knew that a job description, along with a set of standards and procedures that specified what was to be done and how to do it would go a long way toward alleviating this problem.

In general, the store manager is responsible for directing all store activities in such a way that quality work is produced,

customer relations and sales are maximized, and profitability is maintained through effective control of labor, supply, and energy costs. In accomplishing that general aim, a specific store manager's duties and responsibilities include quality control, store appearance and cleanliness, customer relations, bookkeeping and cash management, cost control and productivity, damage control, pricing, inventory control, spotting and cleaning, machine maintenance, purchasing, employee safety, hazardous waste removal, human resource administration, and pest control.

The questions that Jennifer had to address follow.

Questions

- 4-18. What should be the format and final form of the store manager's job description?
- 4-19. Is it practical to specify standards and procedures in the body of the job description, or should these be kept separate?
- 4-20. How should Jennifer go about collecting the information required for the standards, procedures, and job description?
- 4-21. What, in your opinion, should the store manager's job description look like and contain?

Translating Strategy into HR Policies and Practices Case^s

Improving Performance at the Hotel Paris

The New Job Descriptions

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance by eliciting the required employee behaviors and competencies.

As an experienced human resource director, the Hotel Paris's Lisa Cruz knew that recruitment and selection processes invariably influenced employee competencies and behavior and, through them, the company's bottom line. Everything about the workforce—its collective skills, morale, experience, and motivation—depended on attracting and then selecting the right employees.

In reviewing the Hotel Paris's employment systems, she was therefore concerned that virtually all the company's job descriptions were out of date, and that many jobs had no descriptions at all. She knew that without accurate job descriptions, all her

improvement efforts would be in vain. After all, if you don't know a job's duties, responsibilities, and human requirements, how can you decide whom to hire or how to train them? To create human resource policies and practices that would produce employee competencies and behaviors needed to achieve the hotel's strategic aims, Lisa's team first had to produce a set of usable job descriptions.

A brief analysis, conducted with her company's CFO, reinforced that observation. They chose departments across the hotel chain that did and did not have updated job descriptions. While they understood that many other factors might be influencing the results, they believed that the statistical relationships they observed did suggest that having job descriptions had a positive influence on various employee behaviors and competencies. Perhaps having the descriptions facilitated the employee selection process, or perhaps the departments with the descriptions just had better managers. In any case, Lisa received the go-ahead to design new job descriptions for the chain.

While the resulting job descriptions included numerous traditional duties and responsibilities, most also included several

competencies unique to each job. For example, job descriptions for the front-desk clerks included competencies such as "able to check a guest in or out in five minutes or less." Most service employees' descriptions included the competency, "able to exhibit patience and guest supportiveness even when busy with other activities." Lisa knew that including these competencies would make it easier for her team to devise useful employee selection, training, and evaluation processes.

Questions

In teams or individually:

- 4-22. Based on the hotel's stated strategy and on what you learned here in Chapter 4 of Dessler *Human Resource Management*, list at least four more important employee behaviors important for the Hotel Paris's staff to exhibit.
- 4-23. If time permits, spend some time prior to class observing the front-desk clerk at a local hotel. In any case, create a job description for a Hotel Paris front-desk clerk.

⁵ Written and copyrighted by Gary Dessler, PhD.

Key Terms

talent management, 120
job analysis, 121
job description, 121
job specifications, 121
organization chart, 123
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workflow analysis, 123
business process
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position analysis questionnaire
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job-requirements matrix, 144

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Endnotes

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5

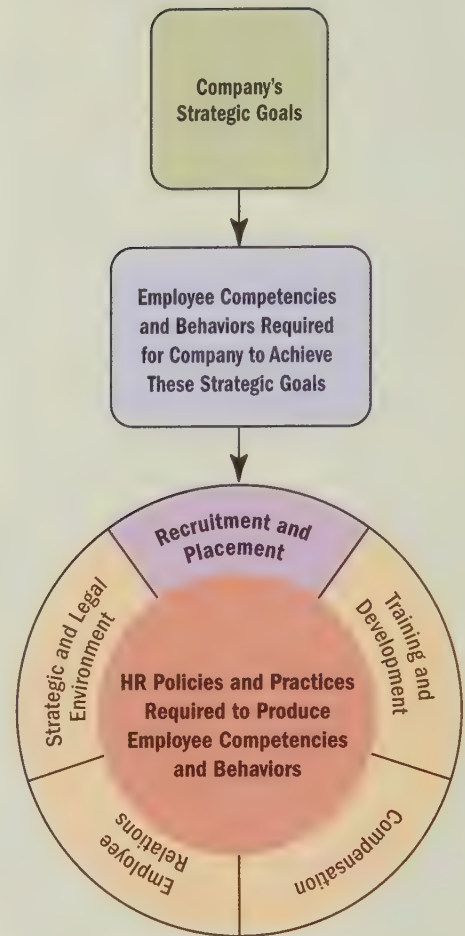
Personnel Planning and Recruiting

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 5-1** **Define** workforce planning, and explain how to develop a workforce plan.
- 5-2** **Explain** the need for effective recruiting and how to make recruiting more effective.
- 5-3** **Discuss** the main internal sources of candidates.
- 5-4** **Describe** how to use recruiting to improve employee engagement.
- 5-5** **Discuss** the main outside sources of candidates, and create an employment ad.
- 5-6** **Explain** how to recruit a more diverse workforce.
- 5-7** **Discuss** practical guidelines for obtaining application information.

The Taj Mahal Palace Hotel in Mumbai is one of the top-ranked hotels in the world because of the extraordinary customer service that it provides to its guests. To do anything for guests and to put their interests at the forefront form the organizational culture of the Taj Mahal palace, owned by the Tata Group. However, following this organizational culture for decades requires honest and committed employees. Using its unique recruitment system, Taj has been successful in hiring the type of employees it wants, and we will study about it in detail in this chapter.¹



WHERE ARE WE NOW . . .

In Chapter 4, we discussed job analysis and the methods managers use to create job descriptions, job specifications, and competency profiles or models. The purpose of this chapter is to improve your effectiveness in recruiting candidates. The topics we discuss include include **Workforce Planning and Forecasting**, **Why Effective Recruiting is Important**, **Internal Sources of Recruits**, **Employee Engagement Guide**, **Outside Sources of Recruits**, **Recruiting a More Diverse Workforce**, and **Developing and Using Application Forms**. Then, in Chapter 6, we'll turn to the methods managers use to select the best employees from this applicant pool.

Introduction

Job analysis identifies the duties and human requirements of each of the company's jobs. The next step is to decide which of these jobs you need to fill, and to recruit and select employees for them.

The recruiting and selecting process can be envisioned as a series of hurdles, as illustrated in Figure 5-1:²

1. Decide what positions to fill, through *workforce/personnel planning and forecasting*.
2. Build a pool of candidates for these jobs, by *recruiting* internal or external candidates.
3. Have candidates complete *application forms* and perhaps undergo initial screening interviews.
4. Use *selection tools* like tests, background investigations, and physical exams to screen candidates.
5. Decide who to make an offer to, by having the supervisor and perhaps others *interview* the candidates.

This chapter focuses on personnel or human resource planning and on recruiting employees. Most Indian organizations, irrespective of size also follow all or few of the steps. Chapters 6 and 7 address tests, background checks, physical exams, and interviews.



LEARNING OBJECTIVE 5-1

Define workforce planning, and explain how to develop a workforce plan.

workforce (or employment or personnel) planning

The process of deciding what positions the firm will have to fill, and how to fill them.

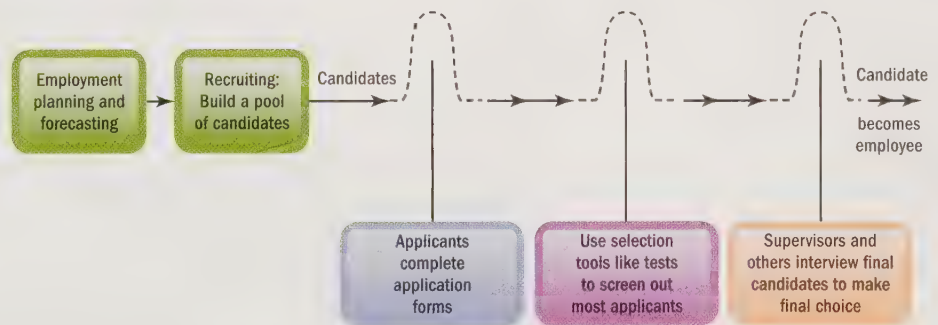
Workforce Planning and Forecasting

Workforce (or employment or personnel) planning is the process of deciding what positions the firm will have to fill, and how to fill them. Its aim is to identify and to eliminate the gaps between the employer's projected workforce needs and the current employees who might be suitable for filling those needs. The manager should engage in workforce planning before recruiting and hiring employees. After all, if you don't know what your employment needs will be in the next few months or years, why are you hiring?

One consulting firm's workforce planning methodology illustrates the basic workforce planning process.

First, Towers Watson *reviews the client's business plan and workforce data* (for instance, on how revenue influences staffing levels). This helps them understand how projected business changes may influence the client's headcount and skills requirements.

FIGURE 5-1 Steps in Recruitment and Selection Process

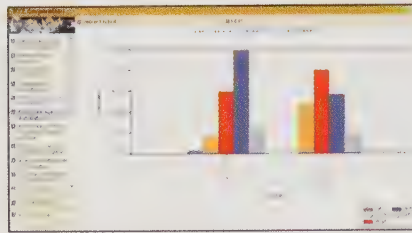


The recruitment and selection process is a series of hurdles aimed at selecting the best candidate for the job.

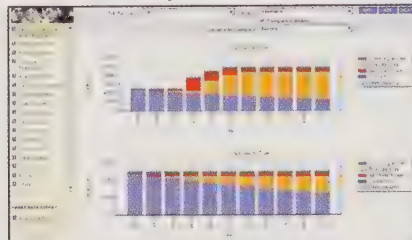
The dashboards, which are part of Towers Watson's workforce planning Internet software, help clients manage the workforce planning process.

Source: © Towers Watson 2012. Used with permission.

Workforce scan



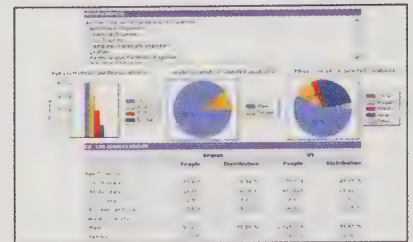
Workforce projection model



Dashboards



External labour scan



Second, they *forecast and identify what positions the firm will have to fill and potential workforce gaps*; this helps them understand what new future positions they'll have to fill, and what current employees may be promotable into them.

Third, they develop a *workforce strategic plan*; here they prioritize key workforce gaps (such as, what positions will have to be filled, and who do we have who can fill them?) and identify specific (recruitment, training, and other) plans for filling any gaps.

Finally, they implement the plans (for instance, new recruiting and training programs), and use various metrics to monitor the process.

Towers Watson clients can use its special "MAPS" software to facilitate this workforce planning process. MAPS contains dashboards (see the preceding four exhibits). The manager uses these, for instance, to monitor key recruitment metrics and for a detailed analysis of the current workforce and historical workforce trends.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

As noted earlier, Indian Hotel Corporation's (IHC) which owns Taj Mahal Hotel, strategy is to be a world-class hotel chain which provides superior customer service and experience. According to the official website, the group looks for Tajness in its employees. IHC calls Tajness as the ability to forge relationships and create emotional bonds.³

To fulfill the business strategy, IHC requires committed and inspired employees who would walk an extra mile to delight the guest. In a world where employees are driven by money than anything else, how does Taj manage to get workforce who are highly committed and stand by the values of the organization? Taj's unique recruitment system makes this possible. It recruits from small and hinterland towns like Mangalore (not major towns like Mumbai or Delhi), and Tier B and Tier C business schools (not the A-ranked ones). Taj's recruitment principle is based on this belief that employees who live in the hinterland and small towns live by the culture of respecting elders and honesty rather than just earning money. Also, it believes that students from the Tier B and Tier C business schools look for stable career and an adjust well with the customer-centric philosophy of Taj, which makes it easier to groom such employees. Therefore, Taj looks for workforce who have respect for elders and who exhibit cultural values such as honesty, integrity, and are of helpful nature. No wonder, recruiting employees who exhibit these values have made IHC successful in keeping its customer satisfied.⁴

Workforce planning embraces all future positions, from maintenance clerk to CEO. However, we'll see that most firms call the process of deciding how to fill executive jobs *succession planning*.⁵

Strategy and Workforce Planning

Workforce planning should be an integral part of the firm's strategic planning process. For example, plans to enter new businesses, to build new plants, or to reduce activities will all influence the personnel skills the employer needs and the positions to be filled. At the same time, decisions regarding *how* to fill these positions will require other HR plans, such as training and recruiting plans. The Strategic Context feature illustrates.

Like any good plans, employment plans are built on forecasts—basic assumptions about the future. As at Taj Mahal Palace Hotel or a public sector bank like the Bank of Baroda, which operates in a regulated but competitive and evolving environment, one basic employment planning decision will be the future business growth projections. Here, the manager will usually need three sets of employment forecasts: one for *personnel needs* (demand), one for the supply of *inside candidates*, and one for the supply of *outside candidates*. (As at Taj or Bank of Baroda, the employer will usually have to decide whether to fill projected openings internally with current employees or externally by bringing in new people). Then with these three sets of employment forecasts, the manager can identify needs-supply gaps, and develop training and other plans to fill the anticipated gaps. We will start with forecasting personnel needs/demand.

Forecasting Personnel Needs (Labor Demand)

How many people with what skills will we need? Managers consider several factors.⁶ For example, the public-sector-undertakings (PSU) banks are expected to face high levels of natural retirement in the coming years. Anticipating this, the Bank of Baroda intensified its entry-level recruitment initiative. The bank also approached the open market to recruit experienced employees, to fill positions requiring specific skills. An example is the recruitment for expertise in Mobile Banking technology, which is a new requirement emerging out of the Digital Banking initiative.⁷

A firm's future staffing needs reflect demand for its products or services, adjusted for changes in its turnover rate and productivity, and for changes the firm plans to make in its strategic goals. Forecasting workforce demand therefore starts with estimating what the demand will be for your products or services. Short term, management should be concerned with daily, weekly, and seasonal forecasts.⁸ For example, retailers track daily sales trends because they know, for instance, that Diwali or New Year, or a regional festival like Onam in Kerala and Navaratri in Gujarat, produces a jump in business and a need for additional store staff. Seasonal forecasts are critical for retailers contemplating end-of-year holiday sales, and for many firms such as landscaping and air-conditioning vendors. Indian e-commerce companies like Flipkart plan for such festivals in advance, and they ready additional employees for the festival rush and last mile delivery process.⁹ Longer term, managers will follow industry publications and economic forecasts closely, to try to get a sense for future demand by speaking with customers and by following industry publications and economic forecasts. Such future predictions won't be precise, but should help you address the potential changes in demand.

The basic process for forecasting personnel needs is to forecast revenues first. Then estimate the size of the staff required to support this sales volume. However, managers must also consider other factors. These include projected turnover, decisions to upgrade (or downgrade) products or services, productivity changes, financial resources, and decisions to enter or leave businesses. The basic tools for projecting personnel needs include trend analysis, ratio analysis, and the scatter plot.

trend analysis

Study of a firm's past employment needs over a period of years to predict future needs.

TREND ANALYSIS **Trend analysis** means studying variations in the firm's employment levels over the past few years. For example, compute the number of employees at the end of each of the last 5 years in each subgroup (like sales, production, secretarial, and administrative) to identify trends.

Trend analysis can provide an initial rough estimate of future staffing needs. However, employment levels rarely depend just on the passage of time. Other factors (like productivity and retirements, for instance), and changing skill needs will influence impending workforce needs.

ratio analysis

A forecasting technique for determining future staff needs by using ratios between, for example, sales volume and number of employees needed.

RATIO ANALYSIS Another simple approach, **ratio analysis**, means making forecasts based on the historical ratio between (1) some causal factor (like sales volume), and (2) the number of employees required (such as number of salespeople). For example, suppose a salesperson traditionally generates ₹500,000 in sales. If the sales revenue to salespeople ratio remains the same, you would require six new salespeople next year (each of whom produces an extra ₹500,000) to produce a hoped-for extra ₹3 million in sales.

Like trend analysis, ratio analysis assumes that things like productivity remain about the same. If sales productivity were to rise or fall, the ratio of sales to salespeople would change.

scatter plot

A graphical method used to help identify the relationship between two variables.

THE SCATTER PLOT A **scatter plot** shows graphically how two variables—such as sales and your firm's staffing levels—are related. If they are, then if you can forecast the business activity (like sales), you should also be able to estimate your personnel needs.

For example, suppose a 500-bed hospital expects to expand to 1,200 beds over the next 5 years. The human resource director wants to forecast how many registered nurses the hospital will need. The human resource director realizes she must determine the relationship between hospital size (in number of beds) and number of nurses required. She calls eight hospitals of various sizes and finds this:

Size of Hospital (Number of Beds)	Number of Registered Nurses
200	240
300	260
400	470
500	500
600	620
700	660
800	820
900	860

Figure 5-2's graph compares hospital size and number of nurses. If the two are related, then the points you plot (from the data in the table above) will tend to fall on a straight line, as here. If you carefully draw in a line to minimize the distances between the line and each one of the plotted points, you will be able to estimate the number of nurses needed for each hospital size. Thus, for a 1,200-bed hospital, the human resource director would assume she needs about 1,210 nurses.

While simple, tools like scatter plots have drawbacks.¹⁰

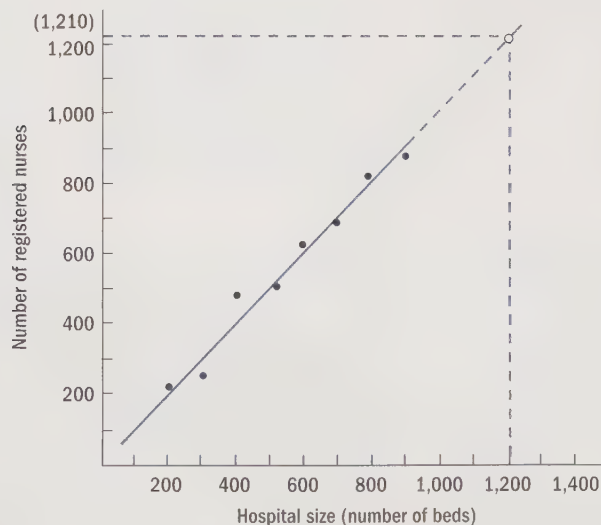
1. Historical sales/personnel relationships assume that the firm's existing activities and skill needs will continue as is.
2. They tend to reward managers for adding employees, irrespective of the company's needs.
3. They tend to institutionalize existing ways of doing things, even in the face of change.

Computerized systems and Excel spreadsheets help managers translate estimates of projected productivity and sales levels into forecastable personnel requirements. *Computerized forecasts* enable managers to build more variables into their personnel projections. Thus, at Chelan County Public Utility District in the U.S., the development manager built a statistical model encompassing such things as age, tenure, turnover rate, and time to train new employees.¹¹ This model helped quickly identify five occupational "hotspots" among 33 occupational groups at the company. This in turn prompted Chelan to focus more closely on creating plans to retain and hire, for instance, more systems operators.¹²

MANAGERIAL JUDGMENT Few historical trends, ratios, or relationships will continue unchanged into the future. Judgment is thus needed to adjust the forecast. Important factors that may modify your initial forecast of personnel requirements include decisions to upgrade quality or enter into new markets; technological and administrative changes resulting in increased productivity; and financial resources available, for instance, a projected budget crunch.

FIGURE 5-2 Determining the Relationship between Hospital Size and Number of Nurses

Note: After fitting the line, you can project how many employees you'll need, given your projected volume.





Forecasting the Supply of Inside Candidates

The personnel demand forecast provides only half the staffing equation, by answering the question: “How many employees in what positions will we need?” Next, the manager must forecast the *supply* (availability) of inside and outside candidates.

Most firms start with possible inside candidates. The main task here is determining which current employees are qualified or trainable for the projected openings. Department managers or owners of smaller firms can use manual devices to track employee qualifications (or will simply know who can do what). For example, you can create your own *personnel skills inventory and development record form*.¹³ For each current employee, list the person’s skills, education, company-sponsored courses taken, career and development interests, languages, desired assignments, and other relevant experiences. Computerized versions of skills inventory systems are also available.¹⁴

Personnel replacement charts (Figure 5-3) are another option, particularly for the firm’s top positions. They show the present performance and promotability for each position’s potential replacement. As an alternative, with a **position replacement card** you create a card for each position, showing possible replacements as well as their present performance, promotion potential, and training.

Larger firms obviously can’t track the qualifications of hundreds or thousands of employees manually. They therefore computerize this information, using various packaged software systems such as Survey Analytics’s Skills Inventory Software. Skills inventory systems such as one from Perceptyx (www.perceptyx.com) enables employers to collect and compile employee skills information in real time via online employee surveys. Skills inventory programs help management anticipate staffing and skills shortages, and also facilitate workforce planning, recruitment, and training.¹⁵

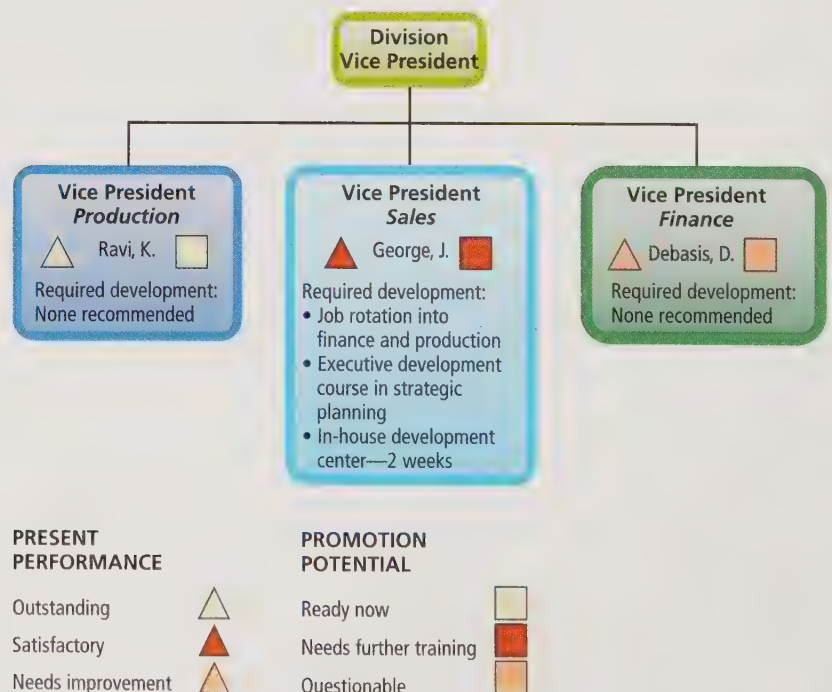
personnel replacement charts

Company records showing present performance and promotability of inside candidates for the most important positions.

position replacement card

A card prepared for each position in a company to show possible replacement candidates and their qualifications.

FIGURE 5-3 Personnel or Management Replacement Chart Showing Development Needs of Potential Future Division Vice Presidents



They typically include items like *work experience codes*, *product knowledge*, the employee's *level of familiarity* with the employer's product lines or services, the person's *industry experience*, *formal education*, *industry experiences*, *foreign language skills*, *relocation limitations*, *career interests*, and *performance appraisals*.

The usual skills inventory process is for the employee, the supervisor, and human resource manager to enter information about the employee's background, experience, and skills via the system. Then, when a manager needs someone for a position, he or she uses key words to describe the position's specifications (for instance, in terms of education and skills). The computerized system then produces a list of qualified candidates. As the user of one such system said, "The [SumTotal] platform allows us to track and assess the talent pool and promote people within the company. . . . The succession module helps us to identify who the next senior managers could be and build development plans to help them achieve their potential."¹⁶

The employer must secure all its employee data.¹⁷ Employees have legal rights regarding who has access to information about them.¹⁸ Internet access makes it relatively easy for more people to access the firm's computerized files.¹⁹ There has been reported instances of employees of outsourcing firms from India leaking client's business and employee information.²⁰ Figure 5-4 summarizes some guidelines for keeping employee data safe.

MARKOV ANALYSIS Employers also use a mathematical process known as *Markov analysis* (or "transition analysis") to forecast availability of internal job candidates. Markov analysis involves creating a matrix that shows the probabilities that employees in the chain of feeder positions for a key job (such as from junior engineer, to engineer, to senior engineer, to engineering supervisor, to director of engineering) will move from position to position and therefore be available to fill the key position.

Forecasting the Supply of Outside Candidates

If there won't be enough skilled inside candidates to fill the anticipated openings (or you want to go outside for another reason), you will turn to outside candidates.

Forecasting workforce availability depends first on the manager's own sense of what's happening in his or her industry and locale. For example, unemployment rates above 7% a few years ago signaled to HR managers that finding good candidates might be easier.²¹ The manager then supplements such observations with formal labor market analyses. For example, government agencies Niti Ayog and NSDC, and industry associations regularly publish information about skill requirements and availability in India.

FIGURE 5-4 Keeping Data Safe

Source: Reprinted with permission from *HR Magazine*, November 2005. © SHRM.

Since intruders can strike from outside an organization or from within, HR departments can help screen out potential identity thieves by following four basic rules:

- Perform background checks on anyone who is going to have access to personal information.
- If someone with access to personal information is out sick or on leave, don't hire a temporary employee to replace him or her. Instead, bring in a trusted worker from another department.
- Perform random background checks such as random drug tests. Just because someone passed 5 years ago doesn't mean their current situation is the same.
- Limit access to information such as SSNs, health information, and other sensitive data to HR managers who require it to do their jobs.

Today's emphasis on technology means many applicants may lack basic skills such as math, communication, creativity, and teamwork.²² Manufacturing sector in India getting ready for Industry 4.0, which requires workers with different skills or Banks which are moving digital need specific skills which are not readily available. Shortage of trained and experienced truck drivers results in losses to Indian transportation industry. Truck owners complain that they are forced to employ licensed but under-trained drivers leading to higher accidents.²³ Such needs, too, get factored into the employer's workforce and training plans. To handle truck shortage, companies like Ashok Leyland, Mahindra and Volvo has established driver training schools.

Predictive Workforce Monitoring

Most employers review their workforce plans every year or so, but this isn't always sufficient. For instance, Valero Energy, U.S. almost lacked sufficient time to implement a plan to address replacing employees who would soon retire and had to reorient its HR plans. Facing huge shortage of talent, HDFC Bank started "Future Bankers Program" in association with Manipal Global Academy to train graduates for jobs in the bank.²⁴ Similar approach has been taken by Amara Raja Group to train future workers by establishing a world-class skill development academy.²⁵

Some employers therefore plan continuously: they do *predictive workforce monitoring*. For example, Intel conducts semiannual "Organization Capability Assessments." The staffing department works with the firm's business heads twice a year to assess workforce needs—both immediate and up to 2 years off.²⁶ Boeing considers various factors when predicting talent gaps as part of its periodic "workforce modeling" process. These include workforce characteristics such as age, retirement eligibility for job groups, economic trends, anticipated increases or decreases in staffing levels, and internal transfers/promotions.²⁷ Indian IT company Wipro considers "strategic workforce planning" as tool for organizational performance and profitability, and its consulting arm offers it as a service to global clients.²⁸ The accompanying HR as Profit Center feature shows an example.

IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Valero Energy created a "labor supply chain" for improving the efficiency of its workforce planning, recruiting, and hiring process. It includes an analytic tool that predicts Valero's labor needs based on past trends. And, it includes computer screen "dashboards" that show how components in the staffing chain, such as ads placed on job boards, are performing according to cost, speed, and quality. Before implementing the labor supply chain system, it took 41 pieces of paper to bring on board an employee and more than 120 days to fill a position; each hire cost about ₹ 12,000. The new system eliminated most of paper forms needed to hire an employee, time to fill fell below 40 days, an cost per hire dropped to ₹ 23,000. ■

Matching Projected Labor Supply and Demand with a Plan

Workforce planning should logically culminate in a workforce plan. This plan lays out the employer's projected workforce and skill gaps, as well as staffing plans for filling these gaps. For example, the plan should identify the positions to be filled; potential internal and external candidates, and sources (like consultants or staffing agencies) for these positions; the training and promotions

moving people into the positions will entail; and the resources that implementing the plan will require, for instance, in recruiter fees, estimated training costs, relocation costs, and interview expenses.²⁹

Succession Planning

In 2018, Apple CEO Tim Cook announced that Apple's board had a succession plan for who could become CEO should Cook step down.³⁰ In June 2019, Wipro Chairman Azim Premji announced the appointment of Rishad Premji, who was the Chief Strategy Officer as successor.³¹ Succession management saw Sanjay Puri taking over as CEO of ITC Ltd in 2017, and in 2019 was appointed the Chairman.³²

During the past few years, Indian organizations like Tata Group, Infosys and LandT saw debates and conflicts related to top level succession. While top level succession receives public attention, equally important is having succession plan across key roles and levels. Succession planning involves developing workforce plans for the company's top positions. **Succession planning** is the ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance.³³ It entails three main steps: identify key position needs, develop inside candidates, and assess and choose inside (or outside) candidates who will fill the key positions.³⁴

First, based on the company's strategic and business plans, top management and the human resource director identify what the company's future key position needs will be. Matters to address include defining key positions and "high potentials," reviewing the company's current talent, and creating (based on the company's strategy) skills profiles for the key positions.³⁵

After identifying future key positions, management turns to creating candidates for these jobs. "Creating" means identifying inside (or bringing in outside) candidates and providing them with the developmental experiences they require to be viable candidates. Employers develop high-potential employees through internal training and cross-functional experiences, job rotation, external training, and global/regional assignments.³⁶

Finally, succession planning requires assessing these candidates and selecting those who will actually fill the key positions.³⁷

As at Apple, the firm's board of directors should ensure that top management succession plans are in place. In fact, monitoring plans for and approving top management appointments is one of a corporate board's essential roles. (The others are overseeing strategy, performance, governance, and integrity.)³⁸

Why Effective Recruiting Is Important

Assuming the company authorizes you to fill a position, the next step is to build up, through recruiting, an applicant pool.³⁹ **Employee recruiting** means finding and/or attracting applicants for the employer's open positions.

Recruiting is important. If only two candidates apply for two openings, you may have little choice but to hire them. But if 10 or 20 applicants appear, you can use interviews and tests to screen out all but the best. Even when the unemployment rates are high, many employers have trouble finding qualified applicants. One survey found that about two-thirds of the manufacturing executives surveyed a few years ago faced a "moderate to severe shortage of skilled labor".⁴⁰ With manufacturing jobs increasingly high-tech, the available jobs require more math and science than most applicants possess.⁴¹ A recent

succession planning

The ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance or ITC,

LEARNING OBJECTIVE 5-2

Explain the need for effective recruiting and how to make recruiting more effective.

employee recruiting

Finding and/or attracting applicants for the employer's open positions.

Lloyd's of London risk index listed "talent and skill shortages" as the number 2 risk facing businesses today ("loss of customers" was number 1).⁴²

Improving Recruitment Effectiveness: Recruiters, Sources, and Branding

Of course, it's not just recruiting but effective recruiting that is important. Recruiters, sources, and employer "brand" are important.

In one early study of recruiter effectiveness, subjects were 41 graduating college students who'd been on several job interviews.⁴³ When asked afterwards why they thought a particular company might be a good fit, 39 mentioned the nature of the job, but 23 said they'd been turned off by the recruiters. For example, some were dressed sloppily; others were "barely literate", some were rude and some made offensive comments. Recruiters, particularly in PSUs and government, have to be aware about diversity mandates and other legal requirements. Therefore, the employer should carefully select and train recruiters. Training should include interpersonal skills (such as in communicating), and basic knowledge about how to recruit and how laws affect recruiters.

Recruitment sourcing involves determining what your recruitment options (referrals, online ads, and so on) are, and then assessing which are best for the job in question. For assessing which source is best, most employers look at how many applicants the source generates. However quantity doesn't necessarily mean quality. Other effectiveness metrics should include, for each source, how many of its applicants were hired, how well its applicants performed on the job, how many failed and had to be replaced, and applicants' performance in terms of training, absence, and turnover.⁴⁴

Similarly, the employer's *brand* or reputation affects recruiting success. Most obviously, it is futile to recruit if the employer's reputation is that it's an awful place to work.

How does the employer want others to see it as a place to work? The branding often focuses on what it's like to work at the company, including company values and the work environment.⁴⁵ GE, for instance, stresses innovation (hiring "bright, interesting people working together on new and exciting projects").⁴⁶ IIMA brands as a leading business school with top class faculty, wide industry and policy level engagement and high quality students.⁴⁷ Others stress being environmentally responsible.⁴⁸

Job applicants' employer reviews are widely available on sites like glassdoor.com, so employers must be diligent. Applicants also check with www.paycheck.in that provides information about salary levels and career tips. Ensure that all applicants are treated courteously and that no reviews go unanswered.⁴⁹

The Recruiting Yield Pyramid

Filling a handful of positions might require recruiting dozens or hundreds of candidates. Managers therefore use a staffing or **recruiting yield pyramid**, as shown in Figure 5-5, to gauge the staffing issues it needs to address. In Figure 5-5, the company knows it needs 50 new entry-level accountants next year. From experience, the firm also knows the following:

- The ratio of offers made to actual new hires is 2 to 1.
- The ratio of candidates interviewed to offers made is 3 to 2.

recruiting yield pyramid

The historical arithmetic relationships between recruitment leads and invitees, invitees and interviews, interviews and offers made, and offers made and offers accepted.

- The ratio of candidates invited for interviews to candidates interviewed is about 4 to 3.
- Finally, the firm knows that of six leads that come in from all its recruiting sources, it typically invites only one applicant for an interview—a 6-to-1 ratio.

Therefore, the firm must generate about 1,200 leads to be able to invite in 200 viable candidates of which it interviews about 150, and so on.



KNOW YOUR EMPLOYMENT LAW

Recruiting Employees

As we explained in Chapter 2, numerous laws and court decisions restrict what employers can and cannot do when recruiting job applicants. In practice, “the key question in all recruitment procedures is whether the method limits qualified applicants from applying.”⁵⁰ Campus recruitment drives by the Indian public sector banks for probationary officer posts were questioned by the court in 2015 as only a few institutions were patronized. At present, the government of India has prohibited PSUs from campus hiring because it violates the constitutional principle of equality.⁵¹ Similarly, in the U.S. courts will often question word-of-mouth recruiting, because workers tend to nominate candidates of the same nationality, race, and religion.

Other laws are relevant. For example, in the U.S. it is illegal for employers to conspire not to hire each other’s employees. Yet Apple and Google paid over \$400 million to settle a claim alleging that they did just that.⁵² In India, for government hiring, applicants from government are expected to get clearance from the current employer, before they apply for the new job. This process is called “proper channel applications”.⁵³ ■

THE SUPERVISOR’S ROLE Line and staff cooperation in recruitment is essential. The human resource manager charged with filling an open position is seldom very familiar with the job itself. So, for example, the recruiter will want to know from the supervisor what the job really entails and its job specifications, as well as informal things like the supervisor’s leadership style and how the team gets along.

HR in Action at the Hotel Paris As they reviewed the details of the Hotel Paris’s current recruitment practices, Lisa Cruz and the firm’s CFO became increasingly concerned. They found that the recruitment function was totally unmanaged. To see how they handled this, see the case on pages 187–188 of this chapter.

FIGURE 5-5 Recruiting Yield Pyramid





LEARNING OBJECTIVE 5-3

Discuss the main internal sources of candidates.

Internal Sources of Candidates

Recruiting typically brings to mind LinkedIn, web-portals like Naukri.com and Shine.com employment agencies, and classified ads, but internal sources—in other words, current employees or “hiring from within”—are often the best sources of candidates.

Filling open positions with inside candidates has advantages. There is really no substitute for knowing a candidate’s strengths and weaknesses, as you should after working with them for some time. Current employees may also be more committed to the company. Morale and engagement may rise if employees see promotions as rewards for loyalty and competence. And inside candidates should require less orientation and (perhaps) training than outsiders. Most Indian firms, particularly the PSUs and government, strictly followed principle of filling positions from internally upto the very senior levels. However, recently (2018) the trend has changed with Government of India appointing external candidates at senior government positions, thus opening higher government jobs to lateral entry candidates.⁵⁴

There are other advantages. External hires tend to come in at higher salaries than do those promoted internally, and some apparent “stars” hired from outside may still disappoint. On the other hand, some firms—particularly those facing challenges, such as McDonald’s—have done very well by bringing in outsiders. Two recent Indian cases discussed widely were Tata group and Infosys, where the external recruits had to leave the organizations. Later, Tata Group appointed an internal candidate as the Chairman.⁵⁵

One executive recruiter argues that internal candidates are always better than external ones unless the internal candidates simply can’t pass muster. One study concluded that firms that hired their CEOs from inside rather than outside performed better. Some firms—particularly those facing enormous challenges—such as IBM and Ford Motor Company—did extremely well by bringing in outside leaders (respectively, Louis Gerstner and Alan Mullally). In cases of Tata Sons and Infosys there were difference of opinion about the performance and suitability of the external recruits.

Hiring from within can also backfire. Inbreeding is a potential drawback, if new perspectives are required. The process of posting openings and getting inside applicants can also be a waste of time, when the department manager already knows whom he or she wants to hire. Rejected inside applicants may become discontented; telling them why you rejected them and what remedial actions they might take is crucial.

There are some practical rules to use in determining whether to go outside or promote from within. For example, if you need specific skills that aren’t currently available in your company, or have to embark on a tough turn around, or your current succession planning or skills inventory systems are inadequate, it may be best to look outside. On the other hand, if your company is thriving and you have effective succession planning and skills inventories, have the skills you need internally, and have a unique and strong company culture, then look within.⁵⁶

job posting

Publicizing an open job to employees (often by literally posting it on bulletin boards) and listing its attributes, like qualifications, supervisor, working schedule, and pay rate.

Finding Internal Candidates

In a perfect world, the employer will adhere to formal internal-recruitment policies and procedures. These typically rely heavily on job posting and on the firm’s skills inventories. **Job posting** means publicizing the open job to employees (usually by literally posting it on company intranets or bulletin

boards). These postings list the job's attributes, like qualifications, supervisor, work schedule, and pay rate. *Qualifications skills inventories* may reveal to the company's recruiters those employees who have the right background for the open job. Ideally, the employer's internal-recruitment system therefore matches the best inside candidate with the job. In practice, this doesn't always happen. For better or worse, internal politics and having the right connections may well lead to placements that seem (and indeed may be) unfair and suboptimal.

Rehiring someone who left your employ has pros and cons. Former employees are known quantities (more or less) and are already familiar with how you do things. On the other hand, employees who you let go may return with negative attitudes.⁵⁷ Inquire (before rehiring) about what they did during the layoff and how they feel about returning. After a probationary period, credit them with the years of service they had accumulated before they left.⁵⁸

LEARNING OBJECTIVE 5-4

Describe how to use recruiting to improve employee engagement.

Employee Engagement Guide for Managers

Promotion from Within

Many employers encourage internal recruiting, on the reasonable assumption that doing so improves employee engagement. Thus, as IBM shifted from supplying mostly hardware to consulting, it assessed its skills gaps and instituted workforce plans to train current employees for new jobs; this assumedly fostered employee engagement. Similarly, International Paper appointed a single person "to provide support to all [business units], Staff Groups and Regions for Workforce Planning and Engagement."⁵⁹ Conversely, other employers, faced with strategic shifts, simply dismiss employees who don't "fit."

Internal recruitment and promotions from within are common in Indian family businesses and PSUs. It is common for an employee who started at an entry level to become the country head. A.M. Naik, who is the Chairperson of engineering giant Larsen and Toubro Limited (L&T), and Arundhanti Bhat-tacharya, who was the chairperson of the State Bank of India (SBI), are two such examples. A.M. Naik started as a graduate engineer and worked his way up at L&T, and the former SBI chairperson joined the bank as Probationary Officer. Both these organizations are known for investing in the development of their employees, and providing opportunity to work on unique roles, with a variety of challenges and exposure.

External recruitment is attempted only if internal talent is not available. However, in recent years, the trend is changing. Even PSU banks like Bank of Baroda and Canara Bank hired CEOs from outside the bank. Recruitment from within contributes to higher level of employee engagement. We will discuss later (in Chapter 8, Careers), the effects of promotion from within, without effective performance appraisal and training.

A manager interested in fostering his or her employees' engagement can draw several useful guidelines from L&T's and SBI's promotion-from-within system show a genuine interest in your employees' career aspirations; provide career-oriented appraisals; have a formal job-posting system; see that your employees have access to the training they need; and balance your desire to keep good employees with the benefits of helping them learn of and apply for other positions in your company.



LEARNING OBJECTIVE 5-5

Discuss the main outside sources of candidates, and create an employment ad.

Outside Sources of Candidates

Employers can't always get all the employees they need from their current staff, and sometimes they just don't want to. We look at the sources firms use to find outside candidates next.

Informal Recruiting and the Hidden Job Market

Many job openings aren't publicized at all; jobs are created and become available when employers serendipitously encounter the right candidates. The author of *Unlock the Hidden Job Market* estimates that perhaps half of all positions are filled without formal recruiting.⁶⁰ Similarly, one survey found that 28% of those surveyed found their most recent job through word of mouth. Nineteen percent used online job boards, 16% direct approaches from employers and employment services, 7% print ads, and only 1% social media sites (although 22% used sites like LinkedIn to search for jobs).⁶¹ Employee referrals is a good source for companies to recruit employees. The referral program taps on the network and goodwill of employees. Infosys recruits a major chunk of employees through referrals. It has also used technology to make its employee referral system more systematic and efficient. An employee referral portal where all the details regarding requirements for prospective employee are given, so that, current employees can better match and refer for the positions. Since current employees know both the company and the prospective employee, a better match of skill, personality, and culture can be made. Many companies also reward existing employees for referring talent.⁶²

Recruiting via the Internet⁶³

Most employers post ads on their own Web sites, as well as on job boards such as Naukri.com, Shine.com, Indeed.com, Monster, and CareerBuilder. For example, by using Indeed's smartphone app, job hunters can search for jobs by key word, read job descriptions and salaries, save jobs to a list of favorites, e-mail job links, search for jobs nearby, and often directly apply for the job. Employers should also make their job listings easily recognizable by Google's job search tool. When a job seeker types a specific job search term (such as, "social media marketing director jobs for law firms in Cleveland Ohio") into Google's search box, its search algorithms unearth relevant listings from both employers and from job listings services like LinkedIn and CareerBuilder.⁶⁴

Employers use various methods to facilitate online recruiting. In Hungary, the local office of accountants PriceWaterhouseCoopers (PWC) lets prospective applicants use an online simulation it calls Multipoly, to let applicants better understand what working for PWC is like. The firm attributes a significant increase in applicants to use of the game.⁶⁵ McDonald's posted employee testimonials on social networking sites to attract applicants.⁶⁶ Other employers simply scan through job boards' résumé listings. The *dot-jobs* domain gives job seekers a one-click conduit for finding jobs at the employers who register at [www.\[employer's name\].jobs](http://www.[employer's name].jobs). For example, applicants seeking a job at Disneyland can go to www.Disneyland.jobs. *HireVue* "lets candidates create video interviews and send them to employers to review, share, and compare with other applicants."⁶⁷

Virtual (fully online) job fairs are another option. Here online visitors see a similar setup to a regular job fair. They can listen to presentations, visit booths,

leave résumés and business cards, participate in live chats, and get contact information from recruiters and hiring managers.⁶⁸ Fairs last about 5 hours.

ONLINE RECRUITMENT AROUND THE GLOBE Just about every country has its own recruitment sites, such as Zhaopin.com in China. The popularity of baitoru.com in Japan shows how culture is changing there. After decades in which most workers there had lifetime job security, that system recently has broken down. Today large numbers of Japanese workers are part-time or temporary. They use baitoru.com to find jobs.⁶⁹

PROS AND CONS Online recruiting generates more responses quicker and for a longer time at less cost than just about any other method. And, because they are more comprehensive in describing the jobs, Web-based ads have a stronger effect on applicant attraction than do printed ads.⁷⁰ But, online recruiting has two potential problems.

First is bias.⁷¹ Older people and illiterate job seekers, are less likely to be online, so such recruiting may exclude some older applicants (and certain other sections). Similarly, some ads reportedly have dropdown boxes that won't allow (older applicants) adding data prior to 1980, and some media, such as Facebook, enable recruiters to specify that ads target particular (usually younger) age groups.

The second problem is Internet overload: Employers end up deluged with résumés. Self-screening helps: The Cheesecake Factory posts detailed job duties listings, so those not interested needn't apply. Another approach is to have job seekers complete a short online prescreening questionnaire, then use these to identify those who may proceed in the hiring process.⁷² Most employers also use applicant tracking systems, to which we now turn.

Using Recruitment Software and Artificial Intelligence

Internet overload means that most employers use applicant tracking software to screen applications.⁷³ **Applicant tracking systems (ATS)** are online systems that help employers attract, gather, screen, compile, and manage applicants.⁷⁴ They also provide other services, including requisitions management (for monitoring the firm's open jobs), applicant data collection (for scanning applicants' data into the system), and reporting (to create various reports such as cost per hire and hire by source).⁷⁵ Most systems are from *application service providers* (ASPs). These basically redirect applicants from the employer's to the ASP's site. Thus, applicants who log on to take a test at the employer are actually taking the test at the ASP's site.⁷⁶ As one example, a bank uses its ATS to bump applicants who don't meet the job's basic requirements; it then e-mails them suggesting they review the bank's site for more appropriate positions. This bank then uses either phone or video interviews to reduce the applicant pool to a few candidates. Then its recruiters interview those at headquarters and send them through the final selection process.⁷⁷

Similarly, software like that from ZingHR offers what it calls "end-to-end" recruitment solutions. For example, the recruitment manager can use software application to create the position title and position description for the ad, and to automatically post the ad to job boards. The recruiter then uses the ZingHR HR application to schedule interviews, conduct video interviews, keep track of applicants in tabular form, discuss each applicant within the app with members of the recruiter's team, and compile and report statistics.

applicant tracking systems (ATS)

Online systems that help employers attract, gather, screen, compile, and manage applicants.

ARTIFICIAL INTELLIGENCE SYSTEMS Employers also use artificial intelligence–based systems to improve recruitment.⁷⁸

Here the main focus is on automating the résumé analysis. To paraphrase one expert, why read through 10,000 résumés if a machine can instantaneously find the top 20?

For example, Textkernel (www.textkernel.com/) can quickly scan thousands of résumés and find viable candidates. It uses AI to identify alternative words. Thus if a recruiter wants a candidate with experience in autonomous driving technology, Textkernel would scan the résumés not just for “autonomous driving” but also for similar words (like “self-driving”) that its algorithms have found people use in place of “autonomous driving.” SAP’s Resume Matcher takes the employer’s position description and scans Wikipedia entries to better understand the human traits, skills, and experience the job requires.⁷⁹ That helps it quickly read through résumés to rank those that are best.

Even with AI, beware of bias. How the bots define “good candidate” depends on what the employer did in the past. So, if the employer usually chose young white candidates from top universities to hire from its applicant pool, then the AI system will tend to favor such candidates.



TRENDS SHAPING HR: SCIENCE IN TALENT MANAGEMENT

When research from Google’s “People Operations” (HR) group found that job boards weren’t cost-effective for them, they created their own in-house recruiting team. This in-house team uses a proprietary candidate database called gHire. Google’s recruiters continually expand and winnow this candidate list, by searching social networking and other sites, by searching who’s working where, and by reaching out to prospective hires and maintaining dialogues with them, sometimes for years. These in-house recruiters produce handpicked candidates and account for about half of Google’s yearly hires.⁸⁰

Google also actively solicits employee referrals. Because inside referrals turned out to be great candidates, Google analyzed how to boost employee referrals. It found that higher referral fees weren’t the answer (because Googlers already loved recommending great candidates). Instead, Google streamlined the selection process, so more referrals got hired.

Google uses outside recruiters sparingly for special assignments and dropped job boards years ago.⁸¹ ■

IMPROVING ONLINE ADS The ad you post requires thought. The best Web ads don’t just transfer newspaper ads to the Web. As one specialist put it, “Getting recruiters out of the ‘shrunken want ad mentality’ is a big problem.” Figure 5-6 is an example of recycling a print ad to the Web. The ineffective Web ad has needless abbreviations and doesn’t say much about why the job seeker should want that job.⁸²

Now look at the effective Web ad in Figure 5-6. It provides good reasons to work for this company. It starts with an attention-grabbing heading and uses the extra space to provide more specific job information. Many employers include the entire job description.⁸³ Ideally, an ad also should provide a way (such as a checklist of the job’s human requirements) for potential applicants to gauge if the job is a good fit.⁸⁴

Furthermore, it’s best to place employment information one click away from the home page. Applicants can submit their résumés online at most larger firms’ Web sites.

FIGURE 5-6 Ineffective and Effective Web Ads

Ineffective Ad, Recycled from Magazine to the Web	Effective Web Ad (Space Not an Issue)
Process Engineer Pay: Between ₹ 40,000 and ₹ 50,000 per month. Immediate Need in Mumbai for a Wastewater Treatment Process Engineer. Must have a min. 4–7 years Industrial Wastewater exp.	Do you want to help us make this a better world? We are one of the top wastewater treatment companies in the world, with installations from New Delhi to Mumbai to Beijing. We are growing fast and looking for an experienced process engineer to join our team. If you have at least 4–7 years' experience designing processes for wastewater treatment facilities and a dedication to make this a better world, we would like to hear from you. Pay range depending on experience is ₹ 65,000–₹ 85,000.

Finally, online recruiting requires caution for *applicants*. Some job boards don't check the legitimacy of the "recruiters" who place ads. Applicants may submit personal details, not realizing who is getting them.⁸⁵



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

LinkedIn and Beyond

Anyone seeking a job should probably sign up with LinkedIn. At present, India is the second largest user base for LinkedIn, after the U.S. and above China.⁸⁶ Accenture predicts that about 80% of new recruits will soon come through prospective employees' social media connections.⁸⁷

Recruiters use social media recruiting in several ways. They dig through social Web sites and competitors' publications to find applicants who may not even be looking for jobs. They seek passive candidates (people not actively looking for jobs) by using social networking sites such as *LinkedIn Recruiter Lite* (a premium service) to browse members' résumés and to find such candidates.⁸⁸ Many firms use Twitter to announce job openings to job seekers who subscribe to their Twitter feeds.⁸⁹ TheLadders.com's Pipeline™ networking tool lets recruiters maintain a dialogue with prospective job seekers even before they're interested in seeking a job. Others use Facebook's friend-finding search function, and Twitter, to learn more about prospective and actual candidates. TalentBin searches sites such as Pinterest to find qualified tech workers.⁹⁰ Many employers have social media strategies and career pages that establish an online presence highlighting the benefits of working for them.⁹¹ At one diversity conference, consultants Hewitt Associates displayed posters asking attendees to text message *hewdiversity* to a specific 5-digit number. Each person texting then became part of Hewitt's "mobile recruiting network," periodically receiving text messages regarding Hewitt openings.⁹²

LinkedIn Recruiter Lite lets employers post jobs on LinkedIn. The employer can also conduct its own LinkedIn search for talent, by using Recruiter Lite's search filters to search through LinkedIn's database. Recruiters then use LinkedIn's InMail to send short personalized messages to people they're interested in. And by joining relevant LinkedIn groups the recruiter can discover other LinkedIn group members who might be potential hires.⁹³ This not only helps them generate more relevant applicants, but also lets the

recruiter mine the applicants' sites for feedback from the person's blog comments and his or her likes/dislikes. Recruiters also post job openings on professional associations and other social networks.⁹⁴ (Note that in one scam, hackers created LinkedIn profiles and then engaged in online chats with recruiters, to obtain access to employees' e-mails and profiles within the company.)⁹⁵

Cloud-based applications such as Oracle Talent Acquisition Cloud enable employees to integrate recruiting with related activities including requisitions management, applicant tracking, and interview management. The Oracle Taleo Social Sourcing Cloud Service is integrated with social sites like LinkedIn, Twitter, and Facebook. It notifies the company's current employees about open positions, and then scans their social connections for referral suggestions that they may want to make. With the My Staffing Pro applicant tracking system, applicants can apply on Facebook, share job openings, and connect with hiring managers.⁹⁶ ■

Advertising

While Web-based recruiting is replacing traditional help wanted ads, print ads are still popular. To use such help wanted ads successfully, employers should address two issues: the advertising medium and the ad's construction.

THE MEDIA The best medium—the local paper, like *The Times of India*, *The Hindu*, and *The Economic Times* or magazines like *Business Today* and *Economic and Political Weekly (EPW)*, for instance—depends on the positions for which you're recruiting. For example, the local newspaper is often a good source for local blue-collar help, clerical employees, and lower-level administrative employees. *The Economic Times* is suitable for senior level corporate positions and *EPW* for academic positions in economics and social sciences. On the other hand, if recruiting for workers with special skills, such as furniture finishers, you'd probably want to advertise in places with furniture manufacturers or if looking for tea processing experts, then Nilgris and Darjeeling area will be focused on. The point is to target your ads where they'll reach your prospective employees.

"Help Wanted" ads in papers like *The Times of India* can be good sources of middle-or senior management personnel. For Top Management, *Economic Times* or a business magazine like *Business Today* will be better. Most of these print outlets now include online ads with the purchase of print help wanted ads.

CONSTRUCTING (WRITING) THE AD Experienced advertisers use the guide AIDA (attention, interest, desire, action) to construct ads. First, you must grab attention to the ad. Why does the ad in Figure 5-7 attract attention? The phrase "next key player" helps.

Next, develop interest in the job. For instance, "Are you looking to make an impact?"

Create desire by spotlighting words such as *travel* or *challenge*. As an example, having a graduate school nearby may appeal to engineers and professional people.

Finally, the ad should prompt action with a statement like "call today."

Job applicants view ads with more specific job information as more attractive and more credible.⁹⁷ If the job has big drawbacks, consider a realistic ad.

When the New York City Administration for Children's Services was having problems with employee retention, it began using these ads: "Wanted: men and women willing to walk into strange buildings in dangerous neighborhoods, [and] be screamed at by unhinged individuals. . . ."98

FIGURE 5-7 Help Wanted Ad That Draws Attention

Source: "Help Wanted Ad That Draws Attention," in Giombetti Associates, Hampden, MA. Reprinted with permission.

Are You Our Next Key Player?

PLANT CONTROLLER

Northern New Jersey

Are you looking to make an impact? Can you be a strategic business partner and team player, versus a classic, "bean counter"? Our client, a growing **Northern New Jersey** manufacturer with two locations, needs a high-energy, self-initiating, technically competent Plant Controller. Your organizational skills and strong understanding of general, cost, and manufacturing accounting are a must. We are not looking for a delegator, this is a hands-on position. If you have a positive can-do attitude and have what it takes to drive our accounting function, read on!

Responsibilities and Qualifications:

- Monthly closings, management reporting, product costing, and annual budget.
- Accurate inventory valuations, year-end physical inventory, and internal controls.
- 4-year Accounting degree, with 5–8 years experience in a manufacturing environment.
- Must be proficient in Microsoft Excel and have general computer skills and aptitude.
- Must be analytical and technically competent, with the leadership ability to influence people, situations, and circumstances.

If you have what it takes to be our next key player, tell us in your cover letter, *"Beyond the beans, what is the role of a Plant Controller?"* Only cover letters addressing that question will be considered. Please indicate your general salary requirements in your cover letter and email or fax your resume and cover letter to:

Ross Giombetti
Giombetti Associates
2 Allen Street, P.O. Box 720
Hampden, MA 01036
Email: Rossgiomibetti@giombettiasoc.com
Fax: (413) 566-2009



Employment Agencies

There are three main types of employment agencies: (1) public agencies operated by federal, state, or local governments; (2) agencies associated with non-profit organizations; and (3) privately owned agencies.

PUBLIC AND NONPROFIT AGENCIES Every state has a public, state-run employment service agency. The employment exchanges in India are run by Director General of Employment and Training, Ministry of Labor, Government of India. This directorate has network more than 997 employment exchanges. (2016 data) According to the Employment Exchange (Compulsory Notification of Vacancies) Act of 1959, the public and private forms have to notify vacancies for specific jobs and fill these positions through employment exchanges. These exchanges also help candidates in searching jobs, pre-employment training as well as career guidance, Indian employees have mixed experiences with employment exchanges.

Some employers have mixed experiences with public agencies. For one thing, applicants for unemployment insurance are required to register and to make themselves available for allowances and job interviews. Some of these people are not interested in returning to work, so employers can end up with applicants who have little desire for immediate employment. And fairly or not, employers probably view some of these local agencies as lethargic in their efforts to fill area employers' jobs.

Most (nonprofit) professional and technical societies, such as the Institute of Chartered Accountants of India (ICAI), have units that help members find jobs. The institution regularly organizes job fairs to help members, specifically for the newly qualified chartered accountants. Many special public agencies place people who are in special categories, such as those who are disabled. Currently, there are 50 state-run special employment exchanges in India (and 38 special cells) that focus on providing employment to the disabled. Separate exchanges are run for professionals, executives (the number was 14 in 2015), and university students.⁹⁹

PRIVATE AGENCIES Private employment agencies are important sources of clerical, white-collar, and managerial personnel. They charge fees (set by state law and posted in their offices) for each applicant they place. Most are “fee-paid” jobs, in which the employer pays the fee. Use one if:

1. Your firm doesn't have its own human resources department and feels it can't do a good job recruiting and screening.
2. You must fill a job quickly.
3. There is a perceived need to attract more minority or female applicants.
4. You want to reach currently employed individuals, who might feel more comfortable dealing with agencies than with competing companies.
5. You want to reduce the time you're devoting to recruiting.¹⁰⁰

Yet using employment agencies requires avoiding the potential pitfalls. For example, the employment agency's screening may let poor applicants go directly to the supervisors responsible for hiring, who may in turn naively hire them. Conversely, improper screening at the agency could block potentially successful applicants.

To help avoid problems:

1. Give the agency an accurate and complete job description.
2. Make sure tests, application blanks, and interviews are part of the agency's selection process.
3. Periodically review equal employment data on candidates accepted or rejected by your firm, and by the agency.
4. Screen the agency. Check with other managers to find out which agencies have been the most effective at filling the sorts of positions you need filled. Review the Internet and classified ads to discover the agencies that handle the positions you seek to fill.
5. Supplement the agency's reference checking by checking at least the final candidate's references yourself.

Recruitment Process Outsourcers

Recruitment process outsourcers (RPOs) are special vendors that handle all or most of an employer's recruiting needs. They usually sign short-term contracts

with the employer, and receive a monthly fee that varies with the amount of actual recruiting the employer needs done. This makes it easier for an employer to ramp up or ramp down its recruiting expenses, as compared with paying the relatively fixed costs of an in-house recruitment office.¹⁰¹ Husys.com, a Hyderabad based firm provides such services to SME clients. Large global RPOs include Manpower Group Solutions, Allegis Global Solutions, and IBM Recruitment Services.¹⁰²

■ HR AND THE GIG ECONOMY: TEMPORARY WORKERS AND ALTERNATIVE STAFFING

Vast numbers of workers today work in the gig (also called the sharing, 1099, and on-demand) economy.¹⁰³ From Uber drivers to temp employees, they typically work in freelance, contract, temporary, or consultant capacities.

For example, many employers build their staff wholly or in part around freelance programmers, designers, or marketers. Freelancer community Web sites enable such employers to recruit based on the freelancer's reputation and work product. For example, upwork.com (see www.upwork.com) reports its members' skills assessments, and lists detailed project work experience, making it easier for prospective employers to decide who to hire. The TopCoder.com (see www.topcoder.com/how-it-works/) programming community site enables employers to identify top programmers based on their reputations. UrbanClap provides freelance service workers for homes and offices in different Indian cities/towns. The freelance workers registered with the portal are trained and their identities are verified beforehand.

Temporary Workers

Employers also increasingly supplement their permanent workforces by hiring contingent or temporary workers, often through temporary help employment agencies. Also known as *part-time* or *just-in-time workers*, the contingent workforce is big and growing, and it isn't limited to clerical or maintenance staff. It includes thousands of engineering, science, and management support occupations, such as temporary chief financial officers, human resource managers, and chief executive officers.¹⁰⁴

Employers use temps for many reasons. One is the trend toward organizing around short-term projects. For example, Makino, which manufactures machine tools, now outsources the installation of large machines to contract firms, who in turn hire temps to do the installations. Flexibility is another concern, with more employers wanting to quickly reduce employment levels if the economic turnaround proves short-lived.¹⁰⁵ Other employers use temp agency-supplied workers to "try out" prospective employees. Employers have also long used "temps" to fill in for employees who were out sick or on vacation.

The employer should compare costs of temps versus permanent employees. Productivity in output per hour paid can be higher, since temps often only get paid when they're working—not for days off. However, temps often cost employers more per hour because the agency gets a fee. But the agency also does the recruiting, whereas for permanent employees the employer should include costs such as for placing ads and interviewers' time.¹⁰⁶

Temporary employees are examples of **alternative staffing**—basically, the use of non-traditional recruitment sources. Other alternative staffing arrangements include "in-house temporary employees" (people employed directly by the company, but on an explicit short-term basis) and "contract technical employees" (highly skilled workers like engineers, who are supplied for long-term projects under contract from outside technical services firms).

THE TEMP AGENCY OR JOB CONTRACTOR. Employers hire temp workers either through direct hires or through temporary staff agencies or through Contractor. Direct hiring involves simply hiring workers and placing them on the job. The employer usually pays these people directly, as it does all its employees, but classifies them separately, as

alternative staffing

The use of nontraditional recruitment sources.

casual, seasonal, or temporary employees, and often pays few if any benefits.¹⁰⁷ The other approach is to use a temp agency. Here the agency handles all the recruiting, screening, and payroll administration for the temps. Thus, Nike hired Kelly Services to manage Nike's temp needs. Teamlease, an Indian company serves 1000 + clients and has more than 100000 employees (called Associates) on their rolls.¹⁰⁸

When working with temporary agencies, understand their policies. For example, with temps, the time sheet is not just a verification of hours worked. Once the worker's supervisor signs it, it's usually an agreement to pay the agency's fees. What is the policy if the client wants to hire one of the agency's temps as a permanent employee? How does the agency plan to recruit employees? And finally, check their references.¹⁰⁹

TEMP EMPLOYEES' CONCERNS To make temporary relationships successful, those supervising temps should understand their concerns. In one survey, temporary workers said they were:

1. Treated by employers in a dehumanizing and ultimately discouraging way
2. Insecure about their employment and pessimistic about the future.
3. Worried about their lack of insurance and social security benefits.
4. Misled about their job assignments and in particular about whether temporary assignments were likely to become full-time.
5. "Underemployed" (particularly those trying to return to the full-time labor market).¹¹⁰

Offshoring and Outsourcing Jobs

Rather than bringing people in to do the company's jobs, outsourcing and offshoring send the jobs out. *Outsourcing* means having outside vendors supply services (such as benefits management, market research, or manufacturing) that the company's own employees previously did in-house. *Offshoring* means having outside vendors or employees *abroad* supply services that the company's own employees previously did in-house.

Employees, unions, legislators, and even many business owners feel that "shipping jobs out" (particularly overseas) is ill-advised. That notwithstanding, employers are sending jobs out, and not just blue-collar jobs. For example, U.S. employers shipped about 135,000 IT jobs recently to countries like India.¹¹¹

Sending out jobs, particularly overseas, presents employers with special personnel challenges. One is the likelihood of cultural misunderstandings (such as between your home-based customers and the employees abroad). Others are security and information privacy concerns; the need to deal with foreign contract, liability, and legal systems issues; and the fact that the off-shore employees need special training (for instance, in using pseudonyms like "Jim" without discomfort).

Rising wages in Asia, coupled with reputational issues, a desire to invest more in local communities, and political pressures are prompting employers to bring jobs back. Several U.S. employers including Apple and Microsoft are shifting jobs back to America.¹¹²

America's H-1B visa program originally aimed to help U.S. employers temporarily hire workers from abroad in specialty occupations. Today, newspaper accounts of employers bringing in foreign workers to be trained by their American counterparts before taking over their jobs has prompted legislators (and others) to argue that the program is misused.¹¹³ For example, they want to limit use of H-1B visas to skilled foreign workers.¹¹⁴ With the program under scrutiny, the number of evidence requests (required to confirm the need for

the visa) recently rose from about 17% of applications to over 46%.¹¹⁵ Giant outsourcers, such as India's Infosys Ltd, reacted with plans to hire thousands of U.S. workers, and by opening technology centers in the United States.¹¹⁶

Executive Recruiters

Executive recruiters (also known as *headhunters*) are special employment agencies employers retain to seek out top-management talent for their clients. The percentage of your firm's positions filled by these services might be small. However, these jobs include key executive and technical positions. For executive positions, headhunters may be your only source of candidates. The employer always pays the fees.

The challenging part of recruiting has always been finding potential candidates. Not surprisingly, Internet-based databases now dramatically speed up such searches. Executive recruiters are also creating specialized units aimed at specialized functions (such as sales) or industries (such as oil products).

Recruiters bring a lot to the table. They have many contacts and are relatively adept at finding qualified candidates who aren't actively looking to change jobs. They can keep your firm's name confidential, and can save top management's time by building an applicant pool. The recruiter's fee might actually turn out to be small when you compare it to the executive time saved.

The big issue is ensuring that the recruiter really understands your needs and then delivers properly vetted candidates. It is essential that the employer explain completely what sort of candidate is required. Some recruiters also may be more interested in persuading you to hire a candidate than in finding one who will really do the job. And one or two of the "final candidates" may actually just be fillers to make the recruiter's one "real" candidate look better.

WORKING WITH RECRUITERS Retaining and working with executive recruiters require some caution. In choosing and working with one, guidelines include¹¹⁷

1. Make sure the firm can conduct a thorough search. Under their ethics code, a recruiter can't approach the executive talent of a former client for a period after completing a search for that client. Since former clients are off limits for a few years, the recruiter must search from a constantly diminishing pool.¹¹⁸
2. Meet the individual who will actually handle your assignment.
3. Make sure to ask how much the search firm charges. Get the agreement in writing.¹¹⁹
4. Make sure the recruiter and you agree on what sort of individual to hire for the position.
5. Ask if the recruiter has vetted the final candidates. Do not be surprised if the answer is, "No, I just get candidates—we don't really screen them."
6. *Never* rely solely on any recruiter to do all the reference checking. Let them check the candidates' references, but get notes of these references in writing from the recruiter (if possible). Recheck at least the final candidates' references yourself.
7. Consider using a recruiter who has a special expertise in your specific industry—he or she may have the best grasp of who is available.

INTERNAL RECRUITING More employers are bringing management recruiting in-house. They still use executive recruiters such as Heidrick and Struggles to conduct top officer (CEO and president) and board member placements, and

to conduct confidential searches. But employers such as General Electric, Sears, Wipro and HCL now have their own internal recruiting offices doing much of their own management recruiting. Time Warner reported saving millions of dollars per year using internal recruiting teams.¹²⁰

With employers increasingly finding new ways of recruiting top management talent, executive search firms are diversifying. For example, the head of Korn/Ferry says his firm is increasingly being asked to investigate prospective candidates' backgrounds, and his firm is also expanding into areas such as employee development.¹²¹ The accompanying HR Tools feature explains what small businesses can do.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Recruiting 101

There comes a time in the life of most small businesses when it dawns on the owner that new blood is needed to take the company to the next level. Should the owner personally recruit this person?

While most large firms don't think twice about hiring executive search firms, small-firm owners will understandably hesitate before committing to a fee that could reach ₹60,000 or more for a ₹120,000 marketing manager (generally one month salary, all inclusive).

However, engaging in a search like this is not like seeking supervisors or data entry clerks. Chances are, you won't find a top manager by placing ads. He or she is probably not reading the want ads. You'll end up with résumés of people who are, for one reason or another, out of work, unhappy with their work, or unsuited for your job. Many may be capable. But you will have to ferret out the gem by interviewing and assessing them.

You won't know where to place or how to write the ads; or where to search, who to contact, or how to screen out the laggards who may appear to be viable candidates. Even if you do, this process will be time-consuming and will divert your attention from other duties.

If you do decide to do the job yourself, consider retaining an industrial psychologist to spend 4 or 5 hours assessing the problem-solving ability, personality, interests, and energy level of the two or three candidates in which you are most interested. The input can provide a valuable perspective on the candidates.

Exercise special care with applicants from competing companies. In U.S., some of the issues at 2018's Uber versus Google Waymo autonomous driving technology trial included, for instance, "Is information 'stolen' if you simply remember it?", and "Even if the engineer developed the solution him or herself, the person cannot tell new employers about specific engineering solutions." Always ascertain if applicants are bound by noncompete or nondisclosure agreements. And perhaps check with an attorney before asking certain questions—regarding patents or potential antitrust issues, for instance.¹²² ■

Referrals and Walk-Ins

Employee referral campaigns are a very important recruiting option. Here the employer posts announcements of openings and requests for referrals on its web site, bulletin boards, and/or wallboards. It often offers prizes or cash awards for referrals that lead to hiring.

Referral's big advantage is that it tends to generate "more applicants, more hires, and a higher yield ratio (hires/applicants)."¹²³ Current employees tend to provide accurate information about their referrals because they're putting their own reputations on the line. And the new employees may come with a more realistic picture of what the firm is like. A SHRM survey found that of 586 employer respondents, 69% said employee referral programs are more cost-effective than other recruiting practices, and 80% specifically said they are more cost-effective than employment agencies. On average, for U.S. based firms, referral programs cost around \$400–\$900 per hire in incentives and rewards.¹²⁴

If morale is low, address that prior to asking for referrals. And if you don't hire someone's referral, explain to your employee/referrer why you did not hire his or her candidate. In addition, remember that relying on referrals might be discriminatory where a workforce is already homogeneous.

WALK-INS Particularly for hourly workers, walk-ins—direct applications made at your office—are a big source of applicants. Sometimes, posting a "Help Wanted" sign outside the door may be the most cost-effective way of attracting good local applicants. Treat walk-ins courteously, for both the employer's community reputation and the applicant's self-esteem. Many employers give every walk-in a brief interview, even if it is only to get information on the applicant "in case a position should be open in the future." Employers also typically receive unsolicited applications from professional and white-collar applicants. Good business practice requires answering all applicants' letters of inquiry promptly.

College or Campus Recruiting

College recruiting—sending an employer's representatives to college campuses to prescreen applicants and create an applicant pool from the graduating class—is important. Recently, the entry-level job market has been the strongest it's been in years, and historically, almost 40% of such jobs have gone to recent college graduates.¹²⁵

One problem is that such recruiting is expensive. Schedules must be set well in advance, company brochures printed, interview records kept, and much time spent on campus. And recruiters are sometimes ineffective because of time pressure and norms/rules imposed by candidates. Some are unprepared, show little interest in the candidate, and act superior. Many don't screen candidates effectively. Campus hiring process in Employers need to train recruiters in how to interview candidates, how to explain what the company has to offer, and how to put candidates at ease. The recruiter should be personable and have a record of attracting good candidates.¹²⁶

The campus recruiter has two main goals. One is to determine if a candidate is worthy of further consideration. Traits to assess include communication skills, education, experience, and technical and interpersonal skills. The other aim is to make the employer attractive to candidates. A sincere and informal attitude, respect for the applicant, and prompt follow-up emails/letters can help sell the employer to the interviewee.

Employers who build relationships with opinion leaders such as career counselors and professors have better recruiting results.¹²⁷ Building close ties with a college's career center provides recruiters with useful feedback regarding things like labor market conditions and the effectiveness of one's online

college recruiting

Sending an employer's representatives to college campuses to prescreen applicants and create an applicant pool from the graduating class.

and offline recruiting ads.¹²⁸ Employers should narrow the list of schools its recruiters visit, using criteria such as quality of academic program, number of students enrolled, curriculum, distance to campus, competitive environment (students salary expectations, and so forth), and student body diversity.¹²⁹

Employers generally invite good candidates for an on-site visit. The invitation should be warm but businesslike, and provide a choice of dates. Have a host meet the applicant, preferably at the airport or at his or her hotel. A package containing the applicant's schedule as well as other information—such as annual reports and employee benefits—should be waiting for the applicant at the hotel.

Plan the interviews and adhere to the schedule. Avoid interruptions; give the candidate the undivided attention of each person with whom he or she interviews. Have another recently hired graduate host the candidate's lunch. Make any offer as soon as possible, preferably at the time of the visit. Frequent follow-ups to “find out how the decision process is going” may help to tilt the applicant in your favor.

What else to do? A study of 96 graduating students provides some insights. Fifty-three percent said “on-site visit opportunities to meet with people in positions similar to those applied for, or with higher-ranking persons” had a positive effect. Fifty-one percent mentioned, “impressive hotel/dinner arrangements and having well-organized site arrangements.” “Disorganized, unprepared interviewer behavior, or uninformed, useless answers” turned off 41%.

INTERNSHIPS Internships can be win-win situations. For students, they can mean honing business skills, learning more about potential employers, and discovering one's career likes (and dislikes). Employers can use the interns to make useful contributions while evaluating them as possible full-time employees. A study found that about 60% of internships turned into job offers.¹³⁰ Unfortunately, some internships turn into nightmares. Many interns, particularly in industries like fashion and media, report long unpaid days of menial work.¹³¹ Courts have laid out several criteria for determining whether someone is actually an “intern.” Criteria include: whether both the intern and employer understand that no compensation is expected; whether the internship provides training similar to an educational environment; and whether the internship is tied to the person's formal education program.¹³²

Military Personnel

Returning and discharged military personnel provide an excellent source of trained and disciplined recruits.¹³³ Yet all too often they have trouble getting placed. The military also has programs to facilitate soldiers finding jobs. The office of Director General of Resettlement, under the Ministry of Defence, government of India(www.dgrindia.com) supports armed forces personnel to find jobs after they retire or are discharged. For assisting officers gain employment, the department has agreement with IIMs and other management institutes for a general management program.

Misconceptions about military personnel (for instance, that post-traumatic stress disorders influence job performance) are generally not valid.¹³⁴ Walmart has a program offering jobs to honorably discharged veterans who left the service in the past year.¹³⁵ The Web site www.helmetstohardhats.org puts vets together with building trades employers.¹³⁶

The accompanying Profit Center feature describes how one employer reduced recruiting costs.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Cutting Recruitment Costs¹³⁷

GE Medical hires about 500 technical workers a year to design sophisticated medical devices such as CT scanners. It has cut its hiring costs by 17%, reduced time to fill the positions by 20% to 30%, and cut in half the percentage of new hires who don't work out.¹³⁸

GE Medical's HR team accomplished this in part by applying its purchasing techniques to its dealings with recruiters. For example, it called a meeting and told 20 recruiters that it would work with only the 10 best. To measure "best," the company created measures inspired by manufacturing techniques, such as "percentage of résumés that result in interviews" and "percentage of interviews that lead to offers." Similarly, GE Medical discovered that current employees are very effective as references. For instance, GE Medical interviews just 1% of applicants whose résumés it receives, while 10% of employee referrals result in actual hires. So GE Medical took steps to double the number of employee referrals. It simplified the referral forms, eliminated bureaucratic submission procedures, and added a small reward like a gift certificate for referring a qualified candidate. GE also upped the incentive—\$2,000 if someone referred is hired, and \$3,000 if he or she is a software engineer. (In 2018, GE spun off ownership of its Medical/Health-care unit to GE shareholders.) ■

LEARNING OBJECTIVE 5-6

Explain how to recruit a more diverse workforce.

Recruiting a More Diverse Workforce

The recruiting tools we described to this point are certainly useful for recruiting minority applicants, too. However, diversity recruiting requires several special steps. For example, Facebook is said to award its recruiters more points for hiring black, female engineers.¹³⁹ Facebook also has its hiring managers interview at least one person from an underrepresented group for each open position.¹⁴⁰ Pinterest recently set aggressive diversity goals, such as to hire women for 30% of open engineer jobs. Although it missed that goal, women still represented 22% of the engineers it hired. Microsoft ties manager bonuses to hiring diverse employees.¹⁴¹

Recruiting Women

Given the progress women have made in getting and excelling in a wide range of professional, managerial, and military occupations, one might assume that employers need no special recruitment efforts to recruit women, but that's not the case. For example, women still face headwinds in certain male-dominated occupations such as engineering. Women also carry the heavier burden of child-rearing, fill proportionately fewer high-level managerial posts, and still earn only about 70% of what men earn for similar jobs. Many employers therefore focus particular efforts on recruiting qualified women.¹⁴² By deploying effective hiring strategies, Cummins India was able to hire women in crucial engineering and technical jobs. This included establishing a technical college for Women in Pune and other strategies including engagement with parents. Women employees now constitute more than 30% of employee strength¹⁴³

The most effective strategy is top management driven.¹⁴⁴ Here the employer emphasizes the importance of recruiting women, identifies gaps in the recruitment and retention of women, and implements a comprehensive plan to attract female applicants. The overall aim is to show that the employer is somewhere women want to work, and the details of any such plan needn't be complicated. For example, particularly for "nontraditional" jobs (like engineering), use the company Web site to highlight women now doing those jobs. Emphasize the employer's mentoring program for moving women up. Offer real workplace flexibility; for example, not just flexible hours but the option of staying on a partner track even while working part-time. Focus some of the recruiting effort on women's organizations, women's employment Web sites, and women's colleges. Make sure benefits cover matters such as prenatal care. Maintain a zero-tolerance sexual harassment policy. Sometimes, redesign of machinery, other equipments including PPEs and the shopfloor layout to suit women employees will also be required.

Older and Retired Workers

This is a trend in U.S. and European countries, and catching up in India. About 32% of Americans age 65 to 69 were employed recently, as were 19% of all those over 65.¹⁴⁵ In the western country context, where there is shortage of workforce It therefore makes sense for employers to encourage older workers to stay (or to come to work at the company). The big draw is to provide opportunities for flexible (and often shorter) work schedules.¹⁴⁶ At one company, workers over 65 can progressively shorten their work schedules; another company uses "mini shifts" to accommodate those interested in working less than full-time. Other suggestions include the following: phased retirement that allows workers to ease out of the workforce,¹⁴⁷ portable jobs for "snowbirds" who wish to live in warmer climates in the winter, part-time projects for retirees, and full benefits for part-timers.¹⁴⁸

As always in recruiting, project the right image. The most effective ads emphasize schedule flexibility, and accentuate the firm's equal opportunity employment statement, *not* "giving retirees opportunities to transfer their knowledge."¹⁴⁹



Diversity Counts

Older workers are good workers. A study focused on the validity of six common stereotypes about older workers: that they are less motivated, less willing to participate in training and career development, more resistant to change, less trusting, less healthy, and more vulnerable to work-family imbalance.¹⁵⁰ They actually found not a negative but a weakly positive relationship between age and motivation and job involvement (suggesting that as age goes up motivation rises). They did find a weak negative relationship between age and trainability. Age was weakly but positively related to willingness to change, and to being more trusting. Older workers were no more likely than younger ones to have psychological problems or day-to-day physical health problems, but were more likely to have heightened blood pressure and cholesterol. Older workers did not experience more work-family imbalance. So there was little support for the common age stereotypes.

What should employers do? First, raise employees', managers', and recruiters' awareness about incorrect age stereotypes. And provide opportunities for more contacts with older people and for information flows between younger and older workers.¹⁵¹ ■

Recruiting from Socially and Economically Backward Social Sections

The government of India has urged all companies to recruit from the economically and socially underprivileged sections of the society. By law, currently, mandatory reservations for jobs are applicable only for government or PSU's jobs. The government has issued detailed guidelines about the same, and the recruitment performance report is placed in the Indian Parliament. Extending job reservation to private sector is being discussed for many years. A few private sector companies have taken initiatives to hire, though they have no legal mandate to do so.

Tata Group is one such company which has a culture of inclusive development and as started the Tata Affirmative Action Programme (TAAP) where it is recruiting from the underprivileged sections of the society, and trains them on entrepreneurial skills as well as educates them further.

LEARNING OBJECTIVE 5-7

Discuss practical guidelines for obtaining application information.

application form

The form that provides information on education, prior work record, and skills.

Developing and Using Application Forms

Purpose of Application Forms

With a pool of applicants, the prescreening process can begin. The **application form** is usually the first step in this process (some firms first require a brief, prescreening interview or online test).

A filled-in application provides four types of information. First, you can make judgments on *substantive matters*, such as whether the applicant has the education and experience to do the job. Second, you can draw conclusions about the applicant's *previous progress* and growth, especially important for management candidates. Third, you can draw tentative conclusions about the applicant's *stability* based on previous work record (although years of downsizing suggest the need for caution here). Fourth, you may be able to use the data in the application to *predict* which candidates will succeed on the job.

Application Guidelines

Ineffective use of the application can cost the employer dearly. Managers should keep several practical guidelines in mind. In the "Employment History" section, request detailed information on each prior employer, including the name of the supervisor and his or her e-mail address and telephone number; this is essential for reference checking. In signing the application, the applicant should certify that falsified statements may be cause for dismissal, that investigation of credit and employment and driving record is authorized, that a medical examination and drug screening tests may be required, and that employment is for no definite period.

Estimates of how many applicants exaggerate their qualifications range from 40% to 70%.¹⁵² The most common problems concern education and job experience. A majority of graduating seniors reportedly believe that employers expect a degree of exaggeration on résumés. Much of this exaggeration occurs on résumés, but may occur on application forms too. Therefore, make sure applicants complete the form and sign a statement on it indicating that the information is true. The court will almost always support a discharge for falsifying information when applying for work.¹⁵³

Finally, doing a less-than-complete job of filling in the form may reflect poor work habits. Some applicants scribble "see résumé attached" on the application. This is not acceptable. You need the signed, completed form.

Some firms no longer ask applicants for résumés at all, but instead request (where permitted) and then peruse Web presence links, such as Twitter or LinkedIn accounts.¹⁵⁴

Most employers need several application forms. For technical and managerial personnel, the form may require detailed answers to questions about education and training. The form for hourly factory workers might focus on tools and equipment.

Using Application Forms to Predict Job Performance

Some employers analyze application information (“biodata”) to *predict* employee tenure and performance. In one study, the researchers found that applicants who had longer tenure with previous employers were less likely to quit, and also had higher performance within 6 months after hire.¹⁵⁵ Examples of predictive biodata items might include “quit a job without giving notice,” “graduated from college,” and “traveled considerably growing up.”¹⁵⁶

Choose biodata items with three things in mind. First, equal employment law limits the items you’ll want to use (avoid age, race, or gender, for instance). And, noninvasive items are best. In one study, subjects perceived items such as “dollar sales achieved” and “grade point average in math” as not invasive. Items such as “birth order” and “frequent dates in high school” were more invasive. Finally, some applicants will successfully fake biodata answers (“quit my job”) to impress the employer.¹⁵⁷



Building Your Management Skills: The Human Side of Recruiting

In one survey, almost 60% of job seekers said they had a poor applicant experience; the worst feedback came from those who never even heard back from the companies they applied to.¹⁵⁸ In another study, recruiter incivility hurt job seekers’ “self-efficacy”—basically, the person’s confidence in his or her ability to get a job. What comments qualified as “uncivil”? Comments or action that were *dismissive* of the applicant’s qualifications (“the recruiter looked at my résumé and said they’d never hire someone like me”); *unresponsive* or untimely communication (“they said they’d get back to me and they never did”); *rude* interactions (“after waiting for my interview for 15 minutes, the interviewer just kept checking her watch while I was talking”); *belittling* (“the interviewer talked down to me in a demeaning tone”); and *rushing* through the interview.¹⁵⁹ Most employers can and should do better.

Chapter Review

Chapter Section Summaries

5-1. Recruitment and selection start with **workforce planning and forecasting**. Workforce planning is the process of deciding what positions the firm will have to fill, and how to fill them. This often starts by forecasting personnel needs, perhaps using trend analysis, ratio analysis, scatter plots, or computerized software packages. Next forecast the

supply of inside candidates. Here employers use manual systems and replacement charts and computerized skills inventories. Forecasting the supply of outside candidates is important, particularly when good candidates are more difficult to come by.

5-2. Managers need to understand why **effective recruiting is important**. Without enough

- candidates, employers cannot effectively screen the candidates or hire the best. Some employers use a recruiting yield pyramid to estimate how many applicants they need to generate in order to fill predicted job openings.
- 5-3. Filling open positions with **internal sources of candidates** has several advantages. You are familiar with their strengths and weaknesses, and they require less orientation. Finding internal candidates often utilizes job posting. For filling the company's projected top-level positions, succession planning—the ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance—is the process of choice.
 - 5-4. Workforce plans influence **employee engagement**. For example, plans to develop and retain employees and promote from within tend to foster engagement, while contrary policies may erode it. Recognizing this, at some companies such as FedEx, internal recruiting and promotion from within both play central roles in employee engagement. The promotion-from-within policy includes helping employees identify and develop their promotion potential. It also requires a coordinated system for accessing career records and posting job openings.
 - 5-5. Employers use a variety of **outside sources of candidates** when recruiting applicants. These include recruiting via the Internet, advertising and employment agencies (including public and nonprofit agencies, and private agencies), temporary agencies and other alternative staffing methods, executive recruiters, college recruiting, referrals and walk-ins, and military personnel.
 - 5-6. Understanding how to **recruit a more diverse workforce** is important. Whether the target is the single parent, older workers, or minorities, the basic rule is to understand their special needs and to create a set of policies and practices that create a more hospitable environment in which they can work.
 - 5-7. **Employers develop and use application forms** to collect essential background information about the applicant. The application should enable you to make judgments on substantial matters such as the person's education and to identify the person's job references and supervisors. Of course, it's important to make sure the application complies with equal employment laws, for instance, with respect to questions regarding physical handicaps.

Discussion Questions

- 5-1. Briefly outline the workforce planning process.
- 5-2. Briefly explain each step in the recruitment and selection process.
- 5-3. What are the four main types of information that application forms provide?
- 5-4. How, specifically, do equal employment laws apply to personnel recruiting activities?
- 5-5. What are the five main things you would do to recruit and retain a more diverse workforce?

Individual and Group Activities

- 5-6. Bring to class several classified and display ads from the Web or the Sunday help wanted ads. Analyze the effectiveness of these ads using the guidelines discussed in this chapter.
- 5-7. Working individually or in groups, develop a 5-year forecast of occupational market conditions for five occupations such as accountant, nurse, and engineer.
- 5-8. Working individually or in groups, visit the local office of your state employment agency (or check out its site online). Come back to class prepared to discuss the following questions: What types of jobs seem to be available through this agency, predominantly? To what extent do you think this particular agency would be a good source of professional, technical, and/or managerial applicants? What sorts of paperwork are applicants to the state agency required to complete before their applications are processed by the agency?

What other services does the office provide? What other opinions did you form about the state agency?



(Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and, (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

- 5-9. Working individually or in groups, find at least five employment ads, either on the Internet or in a local newspaper, that suggest that the company is family friendly and should appeal to women, minorities, older workers, and single parents. Discuss what the firm is doing to be family friendly.
- 5-10. Working individually or in groups, interview a manager between the ages of 25 and 35 at a local business who manages employees age 40 or older. Ask the manager to describe three or four of his or her most challenging experiences managing older employees.
- 5-11. Appendices A and B at the end of this book list the knowledge someone studying for the HRCI

Experiential Exercise

The Nursing Shortage

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As of February 2018, U.S. unemployment was quite low, and that was doubly the case for nurse professionals. Virtually every hospital was aggressively recruiting nurses. Many were turning to foreign-trained nurses, for example, by recruiting nurses in the Philippines and India. Experts expect nurses to be in very short supply for years to come.

Purpose: The purpose of this exercise is to give you experience in creating a recruitment program.

Required Understanding: You should be thoroughly familiar with the contents of this chapter, and with the nurse recruitment program of a hospital such as Mt. Sinai Hospital in New York (see <https://careers.mountsinai.org/>).¹⁶⁰

How to Set Up the Exercise/Instructions: Set up groups of four to five students for this exercise. The groups should work separately and should not converse with each other. Each group should address the following tasks:

- 5-12. Based on information available on the hospital's Web site, create a hard-copy ad for the hospital to place in the *Times of India*, for hiring Indian nurses to work in U.S. Which (geographic) editions of the *Times* would you use, and why?
- 5-13. Analyze the hospital's current online nurses' ad. How would you improve on it?
- 5-14. Prepare in outline form a complete nurses' recruiting program for this hospital, including all recruiting sources your group would use.

Application Case

Techtonic Group

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It's been estimated that there are more than 600,000 unfilled technical jobs (systems engineers, programmers, and so on) in the United States.¹⁶¹ Therefore, IT companies like Techtonic Group are continually battling for good applicants.

For many years, Techtonic outsourced app software development to Armenia; CEO Heather Terenzio flew twice a year to work with the people there. However, programmers' salaries in Eastern Europe were rising, and the distances involved and the language differences complicated managing the projects. Therefore, the CEO decided there had to be a better way. Since the programmers abroad required more and more detailed instructions, she

decided she could hire junior people closer to home. Then with about the same effort and instructions Techtonic could do its programming locally.

The problem was, how do you recruit talent when the unemployment rate for tech workers is close to zero? Ms. Terenzio had a novel solution. Rather than looking for college graduates with technical degrees, Techtonic set up a training/apprenticeship program. The aim was to attract people who didn't necessarily have college degrees but who expressed a strong desire for doing programming. People apply for the five-week program at "Techtonic Academy," where they learn basic computer coding skills. Some of the graduates then qualify for an eight-month paid apprenticeship at Techtonic, where they learn software development.

The program is successful. They usually get about 400 applicants for each of the 15 spots in each five-week Academy program. The city of Boulder helps subsidize the program, and the applicants don't pay for classes. The company is now expanding its academy/apprenticeship programs to other U.S. cities.

Questions

- 5-15. Specifically what recruiting sources would you use to attract participants to the Techtonic Academy, and apprenticeship programs?
- 5-16. What other recruitment sources (other than the academy and apprenticeship programs) would you recommend Techtonic use, and why?
- 5-17. What suggestions would you make to Techtonic for improving its recruiting processes?

Continuing Case

Carter Cleaning Company

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Getting Better Applicants

If you were to ask Jennifer and her father what the main problem was in running their firm, their answer would be quick and short: hiring good people. Originally begun as a string of coin-operated laundromats requiring virtually no skilled help, the chain grew to six stores, each heavily dependent on skilled managers, cleaner/spotters, and pressers. Employees generally have no more than a high school education, and the market for them is very competitive. Over a typical weekend, literally dozens of want ads for experienced pressers or cleaner/spotters can be found in area newspapers. All these people usually are paid around \$15 per hour, and they change jobs frequently. Jennifer and her father thus face the continuing task of recruiting and hiring qualified workers out of a pool of individuals they feel are almost nomadic in their propensity to move from area to area and job to job.

Turnover in their stores (as in the stores of many of their competitors) often approaches 400%. "Don't talk to me about human resources planning and trend analysis," says Jennifer. "We're fighting an economic war, and I'm happy just to be able to round up enough live applicants to be able to keep my trenches fully manned."

In light of this problem, Jennifer's father asked her to answer the following questions:

Questions

- 5-18. First, how would you recommend we go about reducing the turnover in our stores?
- 5-19. Provide a detailed list of recommendations concerning how we should go about increasing our pool of acceptable job applicants so we no longer face the need to hire almost anyone who walks in the door. (Your recommendations regarding the latter should include completely worded online and hard-copy advertisements and recommendations regarding any other recruiting strategies you would suggest we use.)

Translating Strategy into HR Policies and Practices Case[§]

Improving Performance at the Hotel Paris

The New Recruitment Process

The Hotel Paris's competitive strategy is "to use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance, by eliciting the required employee behaviors and competencies.

As a longtime HR professional, Lisa Cruz was well aware of the importance of effective employee recruitment. If the Hotel Paris didn't get enough applicants, it could not be selective about who to hire. And, if it could not be selective about who to hire, it wasn't likely that the hotels would enjoy the customer-oriented employee behaviors that the company's strategy relied on. She was therefore disappointed to discover that the Hotel Paris was paying virtually no attention to the job of recruiting prospective employees. Individual hotel managers slapped together help wanted ads when they had positions to fill, and no one in the chain had any measurable idea of how many recruits these ads

[§] Written and copyrighted by Gary Dessler, PhD.

were producing or which recruiting approaches worked the best (or worked at all). Lisa knew that it was time to step back and get control of the Hotel Paris's recruitment function.

As they reviewed the details of the Hotel Paris's current recruitment practices, Lisa Cruz and the firm's CFO became increasingly concerned. What they found, basically, was that the recruitment function was totally unmanaged. The previous HR director had simply allowed the responsibility for recruiting to remain with each separate hotel, and the hotel managers, not being HR professionals, usually just took the path of least resistance when a job became available by placing help wanted ads in their local papers. There was no sense of direction from the Hotel Paris's headquarters regarding what sorts of applicants the company preferred, what media and alternative sources of recruits its managers should use, no online recruiting, and, of course, no measurement at all of effectiveness of the recruitment process. The company totally ignored recruitment-source metrics that other firms used effectively, such as number of qualified applicants per position, percentage of jobs filled from within, the offer-to-acceptance ratio, acceptance by recruiting source, turnover by recruiting source, and selection test results by recruiting source. This despite the fact, as the CFO put it, "that high-performance companies consistently score much higher than low-performing firms on HR practices such as number of qualified applicants per position, and percentage of jobs filled from within."

It was safe to say that achieving the Hotel Paris's strategic aims depended largely on the quality of the people that it attracted to, and then selected for, employment at the firm. "What we want are employees who will put our guests first, who will use initiative to see that our guests are satisfied, and who will work tirelessly to provide our guests with services that exceed their expectations," said the CFO. Lisa and the CFO both knew this process had to start

with better recruiting. The CFO gave her the green light to design a new recruitment process.

Lisa and her team had the firm's IT department create a central recruiting link for the Hotel Paris's Web site, with geographical links that each local hotel could use to publicize its openings. The HR team created a series of standard ads the managers could use for each job title. These standard ads emphasized the company's service-oriented values, and basically said (without actually saying it) that if you were not people oriented you should not apply. They emphasized what it was like to work for the Hotel Paris, and the excellent benefits (which the HR team was about to get started on) the firm provided. It created a new intranet-based job posting system and encouraged employees to use it to apply for open positions. For several jobs, including housekeeping crew and front-desk clerk, applicants must now first pass a short prescreening test to apply. The HR team analyzed the performance (for instance, in terms of applicants/source and applicants hired/source) of the various local newspapers and recruiting firms the hotels had used in the past, and chose the best to be the approved recruiting sources in their local areas.

After 6 months with these and other recruitment function changes, the number of applicants was up on average 40%. Lisa and her team were now set to institute new screening procedures that would help them select the high-commitment, service-oriented, motivated employees they were looking for.

Questions

- 5-20. Given the hotel's required personnel skills, what recruiting sources would you have suggested it use, and why?
- 5-21. What would a Hotel Paris help wanted ad look like?
- 5-22. Based on what you know and on what you learned here in Chapter 5 of Dessler *Human Resource Management*, how would you suggest Hotel Paris measure the effectiveness of its recruiting efforts?

Writing Assignments

- 5-23. What are the pros and cons of five sources of job candidates?
- 5-24. As explained in this chapter, technology is in many ways revolutionizing how employers recruit for employees. You manage a small women's clothing store and need to hire an assistant manager. How would you use social media to recruit candidates?

Key Terms

workforce (or employment or personnel) planning, 155
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Endnotes

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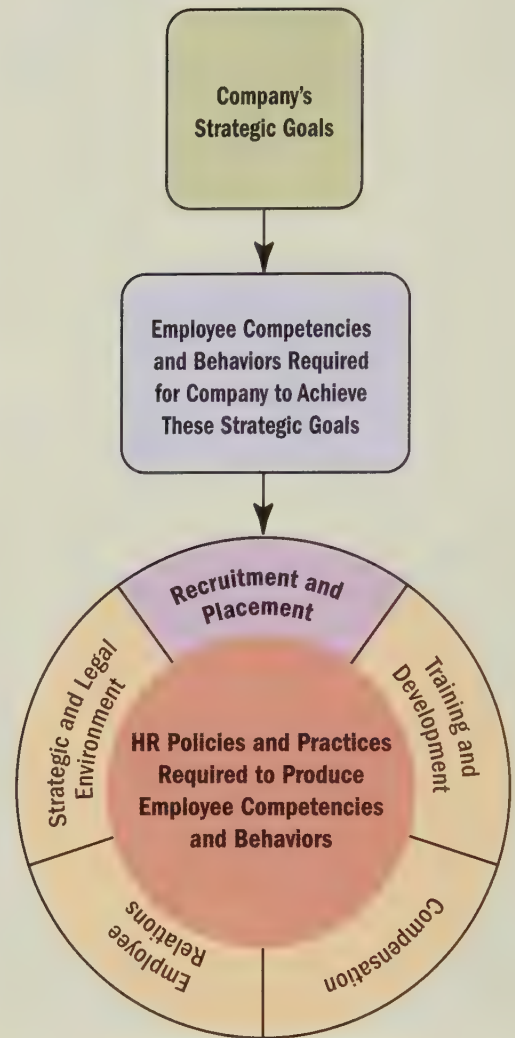
Employee Testing and Selection

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 6-1** **Answer** the question: Why is it important to test and select employees?
- 6-2** **Explain** what is meant by reliability and validity.
- 6-3** **List** and briefly describe the basic categories of selection tests, with examples.
- 6-4** **Explain** how to use two work simulations for selection.
- 6-5** **Describe** four ways to improve an employer's background checking process.

Employee performance and turnover has become an expensive problem for all kinds of businesses. Poor selection of employees can cost organizations beyond the recruitment and training costs since it includes hidden costs as well. Organizations use psychometric tests to improve selection quality so that the hidden costs are minimized. A study indicated that 77% of surveyed Indian organizations use psychometric tests in senior management hiring. Assessing the quality of hire and culture fit are two parameters for which tests are used.¹ We will see how organizations select employees who are suitable?



WHERE ARE WE NOW . . .

Chapter 5 focused on how to build an applicant pool. The purpose of Chapter 6 is to explain how to use various tools to select the best candidate for the job. The main topics we'll cover include the **Selection Process, Basic Testing Techniques, Types of Tests, Work Samples and Simulations, and Making Background and Reference Checks**. In Chapter 7, we will turn to the techniques you can use to improve your skills at what is probably the most widely used screening tool, the selection interview.

LEARNING OBJECTIVE 6-1

Answer the question: Why is it important to test and select employees?

Why Employee Selection Is Important

After reviewing the applicants' résumés, the manager turns to selecting the best candidate for the job. This usually means using the screening tools we discuss in this and the following chapter: tests, assessment centers, interviews, and background and reference checks.² (Applicants may first be prescreened to reduce the applicant pool to a manageable number, as discussed in Chapter 5.) The aim of employee selection is to achieve *person–job fit*. This means matching the knowledge, skills, abilities, and other competencies (KSACs) that are required for performing the job (based on job analysis) with the applicant's KSACs.

Of course, a candidate might be “right” for a job, but wrong for the organization.³ For example, an experienced cabin crew member may perform well at Air India than Air Asia or Go Air, where organizational values are different from the former. Therefore, while person–job fit is usually the main consideration, *person–organization fit* is important too.

In any case, selecting the right person is crucial for several reasons. First, employees with the right skills will perform better for you and the company. Those without these skills or who are abrasive or obstructionist won't perform effectively, and your own performance and the firm's will suffer. The bad apple on a team will diminish its morale and engagement, along with its efforts.⁴ The time to screen out undesirables is before they are in the door.

Second, effective selection is important because it is costly to recruit and hire employees. One survey in U.S. found that the average cost of hiring an employee who doesn't work out is about \$50,000.⁵ Testing can help: in one call center, the 90-day employee attrition rate fell from 41% to 12% after testing began.⁶

Third, inept hiring has legal consequences in some countries. Equal employment laws in U.S. require nondiscriminatory selection procedures.⁷ And **negligent hiring** means hiring employees with criminal records or other problems who then use access to customers' homes (or similar opportunities) to commit crimes.⁸ Indian Armed forces and Indian Railways are among organizations which conduct psychological examination for recruiting. Defense Institute of Psychological Research (DIPR), an arm of DRDO develops psychological tests for armed forces selection.⁹ Many private sector and MNCs also use testing in selection process.

negligent hiring

Hiring workers with questionable backgrounds without proper safeguards.



LEARNING OBJECTIVE 6-2

Explain what is meant by reliability and validity.

The Basics of Testing and Selecting Employees

As with most personnel functions, technology (including *machine learning*) is changing how employers select employees. In this chapter, we'll discuss these and other popular selection tools, starting with tests. A *test* is basically a sample of a person's behavior. Any test or screening tool has two important characteristics, *reliability* and *validity*. We'll start with the former.

Reliability

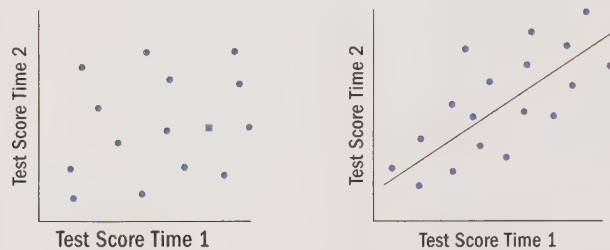
Reliability is a selection tool's first requirement and refers to its consistency: “A reliable test is one that yields consistent scores when a person takes two alternate forms of the test or when he or she takes the same test on two or more different occasions.”¹⁰ If a person scores 90 on an intelligence test on a Monday and 130 when retested on Tuesday, you probably wouldn't have much faith in the test.

reliability

The consistency of scores obtained by the same person when retested with the identical tests or with alternate forms of the same test.

You can measure reliability in several ways. One is to administer a test to a group one day, re-administer the same test several days later to the same group, and then correlate the first set of scores with the second (called *test-retest reliability estimates*).¹¹ Or you could administer a test and then administer what experts believe to be an equivalent test later; this would be an *equivalent or alternate form estimate*. (The Scholastic Assessment Test [SAT] is one example. Graduate Aptitude Test in Engineering (GATE), conducted by IITs is another example.)¹² Or, compare the test taker's answers to certain questions on the test with his or her answers to a separate set of questions on the same test aimed at measuring the same thing. This is an *internal comparison estimate*. For example, a psychologist includes 10 items on a test believing that they all measure interest in working outdoors, and then determines the degree to which responses to these 10 items vary together.

FIGURE 6-1 Test Score Correlation Examples



Many things cause a test to be unreliable. These include physical conditions (quiet one day, noisy the next), differences in the test taker (healthy one day, sick the next), and differences in test administration (courteous one day, curt the next). Or the questions may do a poor job of sampling the material; for example, test one focuses more on Chapters 1 and 3, while test two focuses more on Chapters 2 and 4.

Because measuring reliability generally involves comparing two measures that assess the same thing, it is typical to judge a test's reliability in terms of a *reliability coefficient*. This basically shows the degree to which the two measures (say, test score one day and test score the next day) are correlated.

Figure 6-1 illustrates correlation. In both the left and the right scatter plots, the psychologist compared each applicant's time 1 test score (on the *x*-axis) with his or her subsequent (time 2) test score (on the *y*-axis). On the left, the scatter plot points (each point showing one applicant's test score and subsequent test performance) are dispersed. There seems to be no correlation between test scores obtained at Time 1 and at Time 2. On the right, the psychologist tried a new test. Here the resulting points fall in a predictable pattern. This suggests that the applicants' test scores correlate closely with their previous scores.



test validity

The accuracy with which a test, interview, and so on, measures what it purports to measure or fulfills the function it was designed to fill.

Validity

Reliability, while indispensable, tells you only that the test is measuring something consistently. *Validity* tells you whether the test is measuring what you think it's supposed to be measuring.¹³ **Test validity** answers the question "Does this test measure what it's supposed to measure?" Put another way, it refers to the correctness of the inferences that we can make based on the test.¹⁴ For example, if Jane's scores on mechanical comprehension tests are higher than Jim's, can we be sure that Jane possesses more mechanical comprehension than Jim?¹⁵ With employee selection tests, *validity* often refers to evidence that the test is job

FIGURE 6-2 A Slide from the Rorschach Test



Fotografie/123RF

related—in other words, that performance on the test accurately predicts job performance. A selection test must be valid because, without proof of validity, there is no logical or legally permissible reason to use it to screen job applicants.

A test, as we said, is a sample of a person's behavior, but some tests are more clearly representative of the behavior being sampled than others. A swimming test clearly corresponds to a lifeguard's on-the-job behavior. On the other hand, there may be no apparent relationship between the test and the behavior. Thus, in Figure 6-2, the psychologist asks the person to interpret the picture, and then draws conclusions about the person's personality and behavior. Here it is more difficult to prove that the tests are measuring what they are said to measure, in this case, some aspect of the person's personality—in other words, prove that they're valid.

There are several ways to demonstrate a test's validity.¹⁶ **Criterion validity** involves demonstrating statistically a relationship between scores on a selection procedure and job performance of a sample of workers. For example, it means demonstrating that those who do well on the test also do well on the job, and that those who do poorly on the test do poorly on the job. The test has validity to the extent that the people with higher test scores perform better on the job. In psychological measurement, a *predictor* is the measurement (in this case, the test score) that you are trying to relate to a *criterion*, such as performance on the job. The term *criterion validity* reflects that terminology.

Content validity is a demonstration that the content of a selection procedure is representative of important aspects of performance on the job. For example, employers may demonstrate the *content validity* of a test by showing that the test constitutes a fair sample of the job's content. The basic procedure here is to identify job tasks that are critical to performance, and then randomly select a sample of those tasks to test. In selecting students for dental school, one might give applicants chunks of chalk, and ask them to carve something

criterion validity

A type of validity based on showing that scores on the test (predictors) are related to job performance (criterion).

content validity

A test that is content valid is one that contains a fair sample of the tasks and skills actually needed for the job in question.

construct validity

A test that is construct valid is one that demonstrates that a selection procedure measures a construct and that construct is important for successful job performance.



like a tooth. If the content you choose for the test is a representative sample of the job, then the test is probably content valid. Clumsy students may not fit in a dental course. Subject matter experts (SMEs, such as practicing dentists) help choose the tasks.

Construct validity means demonstrating that (1) a selection procedure measures a construct (an abstract idea such as morale or honesty) and (2) that the construct is important for successful job performance.

At best, invalid tests are a waste of time; at worst, they are discriminatory. Tests you buy “off the shelf” should include information on their validity.¹⁷ But ideally, you should revalidate the tests for the job(s) at hand. In any case, tests rarely predict performance with 100% accuracy (or anywhere near it). Therefore, don’t make tests your only selection tool; also use other tools like interviews and background checks.

Evidence-Based HR: How to Validate a Test

Employers often opt to demonstrate evidence of a test’s validity using criterion validity. Here, in order for a selection test to be useful, you need evidence that scores on the test relate in a predictable way to performance on the job. Thus, other things being equal, students who score high on the graduate admissions tests also do better in graduate school. Applicants who score high on mechanical comprehension tests perform better as engineers. In other words, you validate the test before using it by ensuring that scores on the test are a good predictor of some *criterion* like job performance—thus demonstrating the test’s *criterion validity*.¹⁸

An industrial psychologist usually conducts the validation study. The human resource department coordinates the effort. Strictly speaking, the supervisor’s role is just to make sure that the job’s human requirements and performance standards are clear to the psychologist. But in practice, anyone using tests (or test results) should know something about validation. Then you can better understand how to use tests and interpret their results. The validation process consists of five steps.

STEP 1: ANALYZE THE JOB The first step is to analyze the job and write job descriptions and job specifications. The aim here is to specify the human traits and skills you believe are required for job performance. These requirements become the *predictors*, the human traits and skills you believe predict success on the job. For an assembler’s job, *predictors* might include manual dexterity and patience.¹⁹

In this first step, also define “success on the job,” since it’s this success for which you want predictors. The standards of success are *criteria*. You could use production-related criteria (quantity, quality, and so on), personnel data (absenteeism, length of service, and so on), or worker performance (reported by supervisors).

STEP 2: CHOOSE THE TESTS Once you know the predictors (such as manual dexterity) the next step is to decide how to test for them. Employers usually base this choice on experience, previous research, and “best guesses.” They usually don’t start with just one test. Instead, they choose several tests and combine them into a test battery. The test battery aims to measure an array of possible predictors, such as aggressiveness, extroversion, and numerical ability.

What tests are available and where do you get them? Ideally, use a professional, such as an industrial psychologist. However, many firms publish tests.²⁰ Some tests are available to virtually any purchaser, others only to qualified buyers (such as with advanced degrees in psychology). Salahkaar Consultants, Institute of Banking Personnel Selection (IBPS) in Mumbai, Jombay.com and many other independent vendors offer numerous employment testing services to Indian organizations. These tests should also be complemented with other tools like interviews. Figure 6-3 lists several Web sites that provide information about tests or testing programs.

However, do not let the widespread availability of tests blind you. You should use tests in a manner consistent with laws, and in a manner that is ethical and protects the test taker's privacy.

STEP 3: ADMINISTER THE TEST Next, administer the selected test(s). One option is to administer the tests to employees currently on the job. You then compare their test scores with their current performance; this is *concurrent (at the same time) validation*. Its advantage is that data on performance are readily available. The disadvantage is that current employees may not be representative of new applicants (who, of course, are really the ones for whom you are interested in developing a screening test). Current employees have already had on-the-job training and screening by your existing selection techniques.

Predictive validation is the second and more dependable way to validate a test. Here you administer the test to applicants before you hire them, then hire these applicants using only existing selection techniques, not the results of the new tests. After they've been on the job for some time, measure their performance and compare it to their earlier test scores. You can then determine whether you could have used their performance on the new test to predict their subsequent job performance.

FIGURE 6-3 Examples of Web Sites Offering Information on Tests or Testing Programs

- www.hr-guide.com/data/G371.htm
Provides general information and sources for all types of employment tests.
- <http://www.ibps.in>
Provides support for banking selection in India.
- www.ets.org/testcoll
Provides information on more than 20,000 tests around the globe.
- www.kaplan.com
Information from Kaplan test preparation on how various admissions (mainly, U.S.) tests work.
- www.husys.in
One of many firms offering assessment solutions for SMEs in India

STEP 4: RELATE YOUR TEST SCORES AND CRITERIA Here, ascertain if there is a significant relationship between test scores (the predictor) and performance (the criterion). The usual method is to determine the statistical relationship between (1) scores on the test and (2) job performance using correlation analysis, which shows the degree of statistical relationship.

If there is a correlation between test and job performance, you can develop an **expectancy chart**. This presents the relationship between test scores and job performance graphically. To do this, split the employees into, say, five groups according to test scores, with those scoring the highest fifth on the

expectancy chart

A graph showing the relationship between test scores and job performance for a group of people.

test, the second highest fifth, and so on. Then compute the percentage of high job performers in each of these five test score groups, and present the data in an expectancy chart like that in Figure 6-4.

In this case, someone scoring in the top fifth of the test has a 97% chance of being a high performer, while one scoring in the lowest fifth has only a 29% chance of being a high performer.²¹

STEP 5: CROSS-VALIDATE AND REVALIDATE Before using the test, you may want to check it by “cross-validating”—in other words, by again performing steps 3 and 4 on a new sample of employees. At a minimum, revalidate the test periodically.

Psychologists easily score many psychological tests online or using interpretive Windows-based software. However, managers can easily score many tests, like the Wonderlic Personnel Test, themselves.

Bias

Most employers know they shouldn't use biased tests in the selection process.²² For example, a particular IQ test may provide a valid measure of cognitive ability for middle-class whites but not for some minorities, if the score depends on familiarity with certain aspects of middle-class culture.²³ For many years many industrial psychologists believed they were adequately controlling test bias, but experts have questioned that.²⁴ Employers should therefore redouble their efforts to ensure that the tests they're using aren't producing biased decisions.

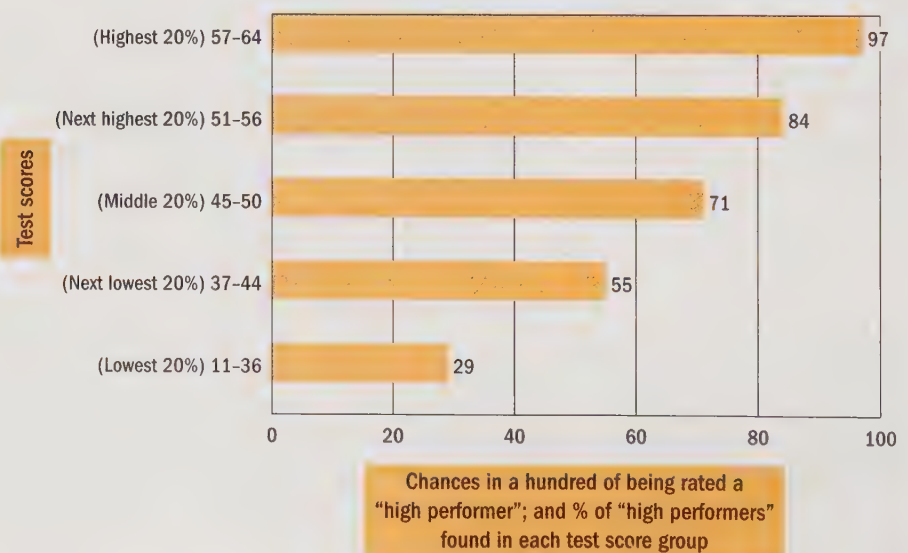
Utility Analysis

Knowing that a test predicts performance isn't always useful. For example, if it's going to cost the employer ₹1,000 per applicant for the test, and hundreds of applicants must be tested, the cost of the test may exceed the benefits.

Answering the question, “Does it pay to use the test?” requires *utility analysis*. Two selection experts say, “Using dollar and cents terms, [utility analysis] shows the degree to which use of a selection measure improves the quality of individuals selected over what would have happened if the measure had not been used.”²⁵ The information required for utility analysis generally includes,

FIGURE 6-4 Expectancy Chart

Note: This expectancy chart shows the relation between scores made on the Minnesota Paper Form Board and rated success of junior draftspersons. *Example:* Those who score between 37 and 44 have a 55% chance of being rated high performer and those scoring between 57 and 64 have a 97% chance.



Many employers administer online employment tests to job candidates.

Image Source/Alamy Stock Photo



for instance, the validity of the selection measure, a measure of job performance in dollars, applicants' average test scores, cost of testing an applicant, and the number of applicants tested and selected. The accompanying HR as a Profit Center discussion shows how employers use tests to improve performance.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Using Tests to Cut Costs and Boost Profits U.S.

Financial services firm Key Bank wanted a better way to screen and select tellers and call-center employees.²⁶ The company calculated it cost about \$10,000 to select and train an employee, but it was losing 13% of new tellers and call-center employees within the first 90 days. That turnover number dropped to 4% after Key Bank implemented a computerized *virtual job tryout candidate assessment screening tool*. It requires candidates to respond to realistic situations, such as impatient customers. “We calculated a \$1.7 million cost savings in teller turnover in one year, simply by making better hiring decisions, reducing training costs, and increasing quality of hires,” said the firm’s human resources director. Angel Broking, head quartered in Mumbai and branch offices across India is a full service broking house. To hire salespersons, the company used ‘Feet on Street’ test developed by Jombay.com. Traits like perseverance, communication and relationship building which are required for top performance in sales were mapped using the test. Company reports lowering of attrition in first six months.²⁷ ■

Validity Generalization

Many employers won’t find it cost-effective to conduct validity studies for the selection tools they use. These employers must find tests and other screening

tools that have been shown to be valid in other settings (companies), and then bring them in-house in the hopes that they'll be valid there, too.²⁸

If the test is valid in one company, to what extent can we generalize those validity findings to our own company? *Validity generalization* “refers to the degree to which evidence of a measure’s validity obtained in one situation can be generalized to another situation without further study.”²⁹ Factors to consider include existing validation evidence regarding using the test for various specific purposes, the similarity of the subjects with those in your organization, and the similarity of the jobs.³⁰

Under the Uniform Guidelines, validation of selection procedures is desirable, but “the Uniform Guidelines require users to produce evidence of validity only when adverse impact is shown to exist. If there is no adverse impact, there is no validation requirement under the Guidelines.”³¹

Test Takers’ Individual Rights and Test Security

Test takers have rights to privacy and feedback under the American Psychological Association’s (APA) standard for educational and psychological tests. These guide psychologists but are *not* legally enforceable. Test takers have rights such as:

- To the confidentiality of test results.
- To informed consent regarding use of these results.
- To expect that only people qualified to interpret the scores will have access to them, or that sufficient information will accompany the scores to ensure their appropriate interpretation.
- To expect the test is fair. For example, no test taker should have prior access to the questions or answers.³²

In India, the professional organization of clinical psychologists has proposed a code of conduct, based on the American Psychological Association (APA) Code. This code prohibits the purchase and use of psychological tests without certification. Clinical psychologists can only use assessment methods that are suitable to the competence and preference of language of an individual unless another language is suitable for the assessment issues. They must also communicate the uses and purposes of assessment techniques, and indicate ‘limits of applicability’ to clients.

If Online testing is used, the code mandates that the computer adaptive testing should comprise a method of assessment which is valid and reliable and administered after evaluating computer literacy of the person who takes the test.³³



Diversity Counts: Gender Issues in Testing

Employers using selection tests should know that gender issues may distort results. Some parents and others socialize girls into traditionally female roles and boys into traditionally male roles. For example, they may encourage young boys but not girls to make things with tools, or young girls but not boys to take care of their siblings. Such encouragement may translate into differences in how males and females answer items on and score on, say, tests of vocational interests. And these test score differences may cause counselors and others to nudge men and women into what tend to be largely gender-segregated occupations, for instance, male engineers and female nurses.

FIGURE 6-5 Sample Test

Source: Based on a sample selection test from *The New York Times*.

CHECK YES OR NO	YES	NO
1. You like a lot of excitement in your life.		
2. An employee who takes it easy at work is cheating on the employer.		
3. You are a cautious person.		
4. In the past three years you have found yourself in a shouting match at school or work.		
5. You like to drive fast just for fun.		

Analysis: According to John Kamp, an industrial psychologist, applicants who answered no, yes, yes, no, no to questions 1, 2, 3, 4, and 5 are statistically likely to be absent less often, to have fewer on-the-job injuries, and, if the job involves driving, to have fewer on-the-job driving accidents. Actual scores on the test are based on answers to 130 questions.

The bottom line is that employers and others need to interpret the results of various tests (including of interests and aptitudes) with care. Such results may sometimes say more about how the person was brought up and socialized than about the person's inherent ability to do some task. ■

How Do Employers Use Tests at Work?

A study among Indian companies by Wills Towers Watson (2016) indicates that recruitment is the primary area where Indian companies use testing.³⁴ The pattern of usage was 77% for Senior Management hiring, 65%, 74% and 81% for middle, junior and entry level/individual contributors. Another survey, indicates that the use of psychometrics by Indian firms is annually growing by 15%.³⁵ About 80% of the biggest U.S. employers now use testing.³⁶ To see what such tests are like, try the short test in Figure 6-5.

Tests are not just for lower-level workers. In general, as work demands increase (in terms of skill requirements, training, and pay), employers tend to rely more on selection testing.³⁷ And, employers don't use tests just to find good employees, but to screen out bad ones.³⁸ For good reason: In retail, employers apprehended about one out of every 28 workers for stealing.³⁹

HR in Action at the Hotel Paris As she considered what to do next to improve the employees' performance in a way that would support the Hotel Paris's strategy, Lisa Cruz, the Hotel Paris's HR director, knew that employee selection had to play a role. The Hotel Paris currently had an informal screening process in which local hotel managers obtained application forms, interviewed applicants, and checked their references. To see how she improved their system, see the case on page 226.

LEARNING OBJECTIVE 6-3

List and briefly describe the basic categories of selection tests, with examples.

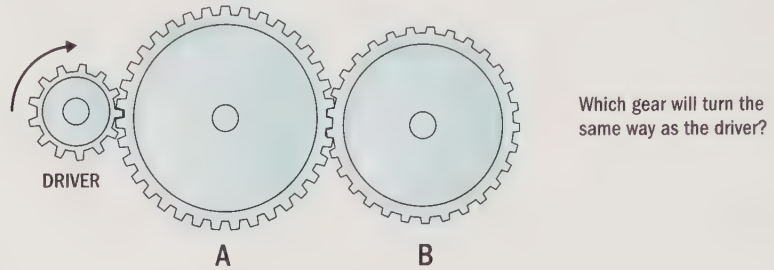
Types of Tests

We can conveniently classify tests according to whether they measure cognitive (mental) abilities, motor and physical abilities, personality and interests, or achievement.⁴⁰ We'll look at each.

Tests of Cognitive Abilities

Cognitive tests include tests of general reasoning ability (intelligence) and tests of specific mental abilities like memory and inductive reasoning.

FIGURE 6-6 Type of Question Applicant Might Expect on a Test of Mechanical Comprehension



INTELLIGENCE TESTS Intelligence (IQ) tests are tests of general intellectual abilities. They measure not a single trait but rather a range of abilities, including memory, vocabulary, verbal fluency, and numerical ability. An adult's IQ score is a "derived" score; it reflects the extent to which the person is above or below the "average" adult's intelligence score.

Intelligence is often measured with individually administered tests like the Wechsler Adult Intelligence Scale. Employers can administer other IQ tests such as the Wonderlic individually or to groups of people.⁴¹ In one illustrative study of firefighter trainees' performance over 23 years, the researchers found that a measure of general intellectual ability and a physical ability assessment were highly predictive of trainee performance.⁴²

SPECIFIC COGNITIVE ABILITIES There are also measures of specific mental abilities, such as deductive reasoning, verbal comprehension, memory, and numerical ability.

Psychologists often call such tests *aptitude tests*, since they purport to measure aptitude for the job in question. Consider the Test of Mechanical Comprehension illustrated in Figure 6-6, which tests applicants' understanding of basic mechanical principles. This may reflect a person's aptitude for jobs—like that of machinist or engineer—that require mechanical comprehension. Other tests of mechanical aptitude include the Mechanical Reasoning Test and the SRA Test of Mechanical Aptitude.

Tests of Motor and Physical Abilities

You might also want to measure motor abilities, such as finger dexterity, manual dexterity, and (if hiring pilots) reaction time. Thus, the Crawford Small Parts Dexterity Test measures the speed and accuracy of simple judgment as well as the speed of finger, hand, and arm movements.

Tests of *physical* abilities may also be required. These include static strength (such as lifting weights), dynamic strength (pull-ups), body coordination (jumping rope), and stamina.⁴³ Applicants for the Indian armed forces must go through such rigorous tests.



Measuring Personality and Interests

A person's cognitive and physical abilities alone seldom explain his or her job performance. As one consultant put it, most people are hired based on qualifications, but are fired because of attitude, motivation, and temperament.⁴⁴

Personality tests measure basic aspects of an applicant's personality. Industrial psychologists often focus on the "big five" personality dimensions: extraversion, emotional stability/neuroticism, agreeableness, conscientiousness, and openness to experience.⁴⁵

Neuroticism represents a tendency to exhibit poor emotional adjustment and experience negative effects, such as anxiety, insecurity, and hostility. Extraversion represents a tendency to be sociable, assertive, active, and to experience positive effects, such as energy and zeal. Openness to experience is the disposition to be imaginative, nonconforming, unconventional, and autonomous. Agreeableness is the tendency to be trusting, compliant, caring, and gentle. Conscientiousness is comprised of two related facets: achievement and dependability.⁴⁶

Some personality tests are *projective*. The psychologist presents an ambiguous stimulus (like an inkblot or clouded picture), and the person reacts. The person supposedly projects into the ambiguous picture his or her attitudes, such as insecurity. Other projective techniques include Make a Picture Story (MAPS) and the Forer Structured Sentence Completion Test.

Other personality tests are *self-reported*: applicants fill them out. Thus, available online,⁴⁷ the Myers-Briggs test provides a personality type classification useful for decisions such as career selection and planning. Similarly the DISC Profile learning instrument enables the user to gain insight into his or her behavioral style.⁴⁸

Personality test results do often correlate with job performance. For example, "in personality research, conscientiousness has been the most consistent and universal predictor of job performance."⁴⁹ Neuroticism is negatively related to motivation and to job engagement.⁵⁰ Extroversion correlates with success in sales, management, and expatriate jobs.⁵¹ Emotional stability, extroversion, and agreeableness predicted whether expatriates would leave their overseas assignments early.⁵² The HR Practices feature presents an example.

■ IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Testing for Assignments Abroad⁵³

Living and working abroad require some special talents. Not everyone can easily adapt to having one's family far away, and to dealing with colleagues with different cultural values. Doing so requires high levels of adaptability and interpersonal skills.⁵⁴

Employers often use special inventories such as the Global Competencies Inventory (GCI) here. It focuses on three aspects of adaptability.

- ✓ The Perception Management Factor assesses people's tendency to be rigid in their view of cultural differences, to be judgmental about those differences, and to deal with complexity and uncertainty.
 - ✓ The Relationship Management Factor assesses a person's awareness of the impact he or she is having on others.
 - ✓ The Self-Management Factor assesses one's mental and emotional health.
-

There are several personality test caveats. *First*, projective personality tests are difficult to interpret and score; it usually requires an expert to analyze test takers' responses and infer their personalities. *Second*, for this and other reasons, personality tests can trigger legal challenges.⁵⁵ *Third*, experts debate whether self-report personality tests suffer from low validity.⁵⁶ *Fourth*, people can and will fake responses to personality and integrity tests.⁵⁷ The bottom line: make sure the personality tests you use predict performance for the jobs you are testing for.

interest inventory

A personal development and selection device that compares the person's current interests with those of others now in various occupations so as to determine the preferred occupation for the individual.

INTEREST INVENTORIES Interest inventories compare one's interests with those of people in various occupations. Thus, the Strong Career Interests Test provides a report comparing one's interests to those of people already in occupations like accounting or engineering. Someone taking the Self-Directed Search (SDS) (www.self-directed-search.com) uses it to identify likely high-fit occupations. The assumption is that someone will do better in occupations in which he or she is interested, and indeed such inventories can predict employee performance and turnover.⁵⁸ One study found that poor vocational fit correlated with counterproductive work behaviors, perhaps because poor fit frustrates the worker.⁵⁹

Achievement Tests

Achievement tests measure what someone has learned. Most of the tests you take in school are achievement tests. They measure your "job knowledge" in areas like economics, marketing, or human resources. Achievement tests are also popular at work. For example, the Purdue Test for Machinists and Machine Operators tests the job knowledge of experienced machinists with questions like "What is meant by 'tolerance'?" Some achievement tests measure the applicant's abilities; a swimming test is one example.



IMPROVING PERFORMANCE THROUGH HRIS: COMPUTERIZATION AND ONLINE TESTING

Computerized and/or online testing is increasingly replacing paper-and-pencil tests. For example, ZingHR, which is an HR software system has the feature for online testing of candidate for recruitment. Candidates have to login to a portal and complete certain tests which are generally aptitude test covering Mathematics and language abilities. This helps to reduce the pool of candidates for subsequent rounds. For the face-to-face interviews, the HR manager or recruiter of the firm using ZingHR software needs to call only those candidates who have scored above the minimum expected standard. ZingHR also allows the candidates to appear for the tests through mobile phones. This helps companies reduce the costs to conduct face-to-face interview for every candidate. It also provides job applicants the flexibility to take the tests remotely.⁶⁰ ■

Development Dimensions International developed a computerized multimedia skill test that Ford Motor Company uses for hiring assembly workers. The company can test everything from how people tighten the bolt, to whether they followed a certain procedure correctly, to using a weight-sensitive mat on the floor that, when stepped on at the wrong time will mark a candidate down in a safety category.

A report from Korn Ferry, an executive at a search and recruiting firm, on hiring practices in India showed that use of online tools, including multimedia-based assessment is high. DBS Bank's Asia Hub in Hyderabad uses multimedia-based assessment tests and organizes hackathons to select technical talent. The online assessment tests are used to assess the programming skills and the hackathon tests for problem-solving skills as well as innovativeness of candidates.



TRENDS SHAPING HR: USING ANALYTICS, MACHINE LEARNING, AND ARTIFICIAL INTELLIGENCE IN EMPLOYEE SELECTION

The Holy Grail of employee selection is to identify predictors that characterize top-notch candidates and to do so quickly and effectively. Employers increasingly use several related analytical and technical tools to improve and expedite the employee selection process.

analytics

Using tools like statistical techniques to examine data, in order to draw cause-effect conclusions from that data.

Analytics refers to using tools like statistical techniques to examine data, in order to draw cause-effect conclusions from that data.⁶¹ *Talent analytics* means using such techniques to let employers search through their employee data to identify patterns and correlations that show what types of people or processes succeed or fail.⁶²

For example, a financial services company hired people on the assumption that what mattered for job performance were things like where they went to school and their grades.⁶³ However, a statistical analysis found that school and grades didn't matter at all. What did matter were things like whether the applicant had demonstrated success in prior jobs, had shown an ability to succeed with vague instructions, and had "no typos, errors, or grammatical mistakes on résumés."

As another example, department store chain Bon-Ton Stores Inc. had high turnover among its cosmetics sales associates. Bon-Ton chose 450 current cosmetics associates who filled out anonymous surveys aimed at identifying employee traits. By using talent analytics to analyze these and other data, the company identified cosmetics associates' traits that correlated with performance and tenure. Bon-Ton had assumed that the best associates were friendly and enthusiastic about cosmetics. However, the best were actually problem solvers. They take information about what the customer wants and needs, and solve the problem.⁶⁴ Talent analysis thereby helped Bon-Ton formulate better selection criteria. In a survey by Times Jobs, Data Analytics (42%) and Artificial Intelligence (36%) were the top technologies impacting HR. Around 35% survey respondents indicated that use of Tech/Analytics have helped in streamlining recruitment process.⁶⁵

machine learning

Software that can improve its own performance and learn on its own.

Machine learning basically refers to software that can improve its own performance and learn on its own. For example, the newsfeeds you subscribe to are often designed to identify the types of articles you prefer, and to feed you more of those articles: The software is "learning" without human intervention.⁶⁶

Machine learning software "learns" to associate the (1) characteristics of an input (like loan applications) with (2) responses (like who defaults on loans). For example, a bank might use machine learning to review the data in its thousands of loan applications (the input) to determine the characteristics of the people who are most likely to repay their loans (the response).⁶⁷ Then, going forward, it could use what the machine learning software learned, to scrutinize future loan applicants who do not meet those characteristics.⁶⁸

Machine learning doesn't just rely on tests, although tests may be one component. Instead, it can identify how factors like word use (does the person often say "tired"?), comments in social media postings, and tiny video interview facial gestures, were related to employee performance in particular companies in the past, and therefore how they may do so in the future.⁶⁹ For example, HireVue's software analyzes its clients' past video employment interviews for signs like facial expressions and voice modulation to determine which predict applicant's suitability for jobs. It can then analyze each new candidate's interview for tell-tale signs that predict performance. For checking references, Skillsurvey's tools help employers anticipate the candidate's prospective performance based on words his or her references use when responding to job specific behavioral questions.⁷⁰ Koru has an employer's current employees complete short surveys. Then its software identifies the traits and behaviors (such as persistence) for which applicant should be assessed, and provides a graphic profile.⁷¹

Many such tools use *algorithms*. These programs quickly crunch through thousands of "if-then" branches (sequentially checking experience, traits, word usage, facial gestures, and so on), to find the best matching candidates for the job. They do this based on what the systems previously learned about what traits historically correlated with high performance on that particular job.⁷²

Finally, these and other tools are building blocks for artificial intelligence systems. **Artificial intelligence** basically means using technology (particularly computers) to carry out tasks in a way that we would consider "human" or "smart."⁷³ ■

artificial intelligence

Using technology (particularly computers) to carry out tasks in a way that we would consider "human" or "smart."

LEARNING OBJECTIVE 6-4

Explain how to use two work simulations for selection.

work samples

Actual job tasks used in testing applicants' performance.

work sampling technique

A testing method based on measuring performance on actual basic job tasks.

Work Samples and Simulations

With **work samples**, you present examinees with situations representative of the job for which they're applying, and evaluate their responses.⁷⁴ Experts consider these (and *simulations*, like the assessment centers we also discuss in this section) to be tests. But they differ from most tests because they directly measure job performance.

Using Work Sampling for Employee Selection

The **work sampling technique** tries to predict job performance by requiring job candidates to perform one or more samples of the job's tasks. For example, work samples for a cashier may include counting money.⁷⁵

Work sampling has advantages. It measures actual job tasks, so it's harder to fake answers. The work sample's content—the actual tasks the person must perform—is not as likely to be unfair to minorities (as might a personnel test that possibly emphasizes middle-class concepts and values).⁷⁶ Work sampling doesn't delve into the applicant's personality, so there's little chance of applicants viewing it as an invasion of privacy. Designed properly, work samples also exhibit better validity than do other tests designed to predict performance.

The basic procedure is to select a sample of several tasks crucial to performing the job, and then to test applicants on them.⁷⁷ An observer monitors performance on each task, and indicates on a checklist how well the applicant performs. For example, in creating a work sampling test for maintenance mechanics, experts first listed all crucial job tasks (like "install pulleys and belts"). Four crucial tasks were installing pulleys and belts, disassembling and installing a gearbox, installing and aligning a motor, and

FIGURE 6-7 Example of a Work Sampling Question

Note: This is one step in installing pulleys and belts.

Checks key before installing against:

—shaft	score 3
—pulley	score 2
—neither	score 1

Note: This is one step in installing pulleys and belts.

pressing a bushing into a sprocket. Since mechanics could perform each task in a slightly different way, the experts gave different weights to different approaches.

Figure 6-7 shows one of the steps required for the task *installing pulleys and belts*—“checks key before installing . . .” Here the examinee might choose to check the key against (1) the shaft, (2) the pulley, or (3) neither. The applicant performs the task, and the observer checks off the score for the approach used.

Situational Judgment Tests

Situational judgment tests are personnel tests “designed to assess an applicant’s judgment regarding a situation encountered in the workplace.”⁷⁸ For example:

You are a sales associate at Croma Retail in Coimbatore. The store sells electronics, gadgets and smart electrical goods. Competition comes from other neighborhood retailers, and from online firms like Flipkart or Snapdeal. Many customers who come to your store check the product with you, and then buy it on Flipkart or Snapdeal. As a sales associate, you are responsible for providing exceptional customer service, demonstrating product knowledge, and maximizing sales. You get a weekly salary, with no sales incentive. How would you respond to this situation?

Situation:

A customer comes to you with a printout for a Samsung Galaxy phone from Amazon.in, and proceeds to ask detailed questions about battery life and how to work the phone, while mentioning that “Amazon’s price is ₹500 less than yours.” You have been with this customer for almost 30 minutes, and there are other customers waiting. You would:

1. Tell the customer to go buy the phone on Amazon.
2. Tell the customer to wait 20 minutes while you take care of another customer.
3. Tell the customer that the local Sprint Mobility dealer has the phone for even less than Amazon.
4. Explain the advantages of similar phones you have that may better fulfill the buyer’s requirements.
5. Ask your supervisor to come over and try to sell the customer on buying the Galaxy from you.

■ HR AND THE GIG ECONOMY: FREELANCE WORKERS

Many employers today build their staff wholly or in part around freelance workers like short-term self-employed programmers, designers, or marketers. One Web site design company owner says that if he needs designers for short projects he “just posts” the job online and gets multiple applications within minutes.⁷⁹

Freelancer community Web sites enable such employers to recruit and select the right freelance team, based on each freelancer’s reputation and work product. For example, Upwork.com (see www.upwork.com/) reports its members’ skills assessments and lists detailed project work experience, making it easier for prospective employers to decide who to hire. Similarly, the TopCoder.com (see www.topcoder.com/) programmer community site helps employers identify top programmers based on the reputations they earned within the community.

UrbanClap (www.urbanclap.com), a mobile marketplace for local service needs, LocalShout (www.localshout.in), a free listing site for freelance providers and buyers, and Mission Kya (www.missionkya.com) are popular Indian freelance/gig sites. These sites also offer profile verification and even skill assessment tests/information (missionkya has an online test program aimed to prove one’s credibility as freelancer), and a rating system to make the job match better.

According to reports, freelance employees are growing in India (a survey in 2015 by Truelancer, a global platform for freelancers shows 15 million Indian registrations) and many companies including Government is taking their help.⁸⁰ The range of Indian gig workers cover technology workers, content writers to drivers and food delivery staff. However, not everything is rosy. There are also issues raised about poor work contacts and unmet contracts in this space.

management assessment center

A simulation in which management candidates are asked to perform realistic tasks in hypothetical situations and are scored on their performance. It usually also involves testing and the use of management games.

Management Assessment Centers

A **management assessment center** is a 2- to 3-day simulation in which 10 to 12 candidates perform realistic management tasks (like making presentations) under the observation of experts who appraise each candidate’s leadership potential. For example, The Cheesecake Factory created its Professional Assessment and Development Center to help select promotable managers. Candidates undergo 2 days of exercises, simulations, and classroom learning to see if they have the skills for key management positions.⁸¹

Typical simulated tasks include

- **The in-basket.** The candidate gets reports, memos, notes of incoming phone calls, e-mails, and other materials collected in the actual or computerized in-basket of the simulated job he or she is about to start. The candidate must take appropriate action on each item. Trained evaluators review the candidate’s efforts.
- **Leaderless group discussion.** Trainers give a leaderless group a discussion question and tell members to arrive at a group decision. They then evaluate each group member’s interpersonal skills, acceptance by the group, leadership ability, and individual influence.
- **Management games.** Participants solve realistic problems as members of simulated companies competing in a marketplace.
- **Individual oral presentations.** Here trainers evaluate each participant’s communication skills and persuasiveness.
- **Testing.** These may include tests of personality, mental ability, interests, and achievements.
- **The interview.** Most require an interview with a trainer to assess interests, past performance, and motivation.

Supervisor recommendations usually play a big role in choosing center participants. Line managers usually act as assessors and arrive at their ratings through consensus.⁸²

In India, Pearson has an assessment center known as Talent Lens Assessment Center. This assessment center uses three steps of assessment, feedback, and on-ground solutions to help the organization select and develop the right talent for the business. A variety of psychometric testing tools such as role play, in-basket exercise, management games, interviews, and presentations are used to select right candidates.

Statistical analyses by various psychologists are used to analyze the results from the tests. These are then shared with the candidates and respective managers through individual reports, management diagnostic reports, and group feedback.⁸³ Defence Research and Development Organization (DRDO), the Indian scientific research organization for defense purposes, conducts regular assessment centers for hiring scientists. The Recruitment and Assessment Center (RAC) of DRDO is staffed with experts who are trained to conduct assessment centers.⁸⁴

Assessment centers are expensive to develop, take longer than conventional tests, require managers acting as assessors, and often require psychologists. However, studies suggest they are worth it.⁸⁵ For many years, studies suggested that cognitive ability tests did a better job of predicting job performance than did assessment centers. A recent study found assessment centers were superior.⁸⁶

In a recent study conducted with India based 219 organizations covering domestic companies and MNCs about implementation of progressive HRM practices and firm performance, use of assessment center for hiring was found to be one of the progressive practices followed by organizations that reported higher performance.⁸⁷

Situational Testing and Video-Based Situational Testing

Situational tests require examinees to respond to situations representative of the job. Work sampling (discussed earlier) and some assessment center tasks (such as in-baskets) are “situational,” as are miniature job training (described next) and the situational interviews we address in Chapter 7.⁸⁸

The **video-based simulation** presents the candidate with several online or computer video situations, each followed by one or more multiple-choice questions. For example, the scenario might depict an employee handling a situation on the job. At a critical moment, the scenario ends, and the video asks the candidate to choose from several courses of action. For example:

(A manager is upset about the condition of the department and takes it out on one of the department's employees.)

MANAGER: Well, I'm glad you're here.

ASSOCIATE: Why?

MANAGER: I take a day off and come back to find the department in a mess. You should know better.

ASSOCIATE: But I didn't work late last night.

MANAGER: But there have been plenty of times before when you've left this department in a mess.

(The scenario stops here.)

situational test

A test that requires examinees to respond to situations representative of the job.

video-based simulation

A situational test in which examinees respond to video simulations of realistic job situations.

If you were this associate, what would you do?

- a. Let the other associates responsible for the mess know that you took the heat.
- b. Straighten up the department, and try to reason with the manager later.
- c. Suggest to the manager that he talk to the other associates who made the mess.
- d. Take it up with the manager's boss.⁸⁹

miniature job training and evaluation

Training candidates to perform several of the job's tasks, and then evaluating the candidates' performance prior to hire.

The Miniature Job Training and Evaluation Approach

Miniature job training and evaluation involves training candidates to perform several of the job's tasks, and then evaluating their performance prior to hire. Like work sampling, *miniature job training and evaluation* tests applicants with actual samples of the job, so it is inherently content relevant and valid.

For example, when Honda built an auto plant in Lincoln, Alabama, it had to hire thousands of new employees. Working with an Alabama industrial development training agency, Honda began running help wanted ads.

Honda and the agency first eliminated those applicants who lacked the education or experience, and then gave preference to applicants near the plant. About 340 applicants per 6-week session received special training at a new facility about 15 miles south of the plant. It included classroom instruction, watching videos of current Honda employees in action, and actually practicing particular jobs. Some candidates who watched the videos simply dropped out when they saw the work's pace and repetitiveness.

The training sessions served two purposes. First, job candidates learned the actual skills they'll need to do the Honda jobs. Second, the training sessions enabled special assessors from the Alabama state agency to scrutinize the trainees' work and to rate them. They then invited those who graduated to apply for jobs at the plants. Honda teams, consisting of employees from HR and departmental representatives, did the final screening.⁹⁰

Realistic Job Previews

Sometimes, a dose of realism makes the best screening tool. For example, when Walmart began explicitly explaining and asking about work schedules and work preferences, turnover improved.⁹¹ In general, applicants who receive realistic job previews are more likely to turn down job offers, but their employers are more likely to have less turnover and be more resilient.⁹² It's common for higher education institutions like IIMA to invite prospective faculty candidates to visit the institute, offer a research seminar and interact with faculty and students. The Strategic Context feature illustrates this principle.

Choosing a Selection Method

The employer should consider several things before choosing a particular selection tool (or tools). These include the tool's reliability and validity, its practicality (in terms of utility analysis), applicant reactions, adverse impact, cost, and the tool's *selection ratio* (does it screen out, as it should, a high percentage of applicants or admit virtually all?).⁹³ Table 6-1 summarizes the validity, potential adverse impact, and cost of several assessment methods. The HR Tools discussion shows how line managers may devise their own tests.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

“Speed Dating” Employee Selection at Zulily

With guiding values like “we work for mom,” and “take ownership,” Zulily, the online retailer focusing on Fun Shopping, must carefully select employees who fit its culture and adhere to its values. How does Zulily do that?⁹⁴ By ensuring that candidates actually experience what it's like to work there. For example, Zulily holds periodic online candidate screening events. At these events, prospective candidates meet the teammates they might be working with at the company, and participate in speed dating-type interviews; some candidates then may get job offers right there.

The speed dating format might seem a bit impersonal, but it's effective for Zulily. To paraphrase a manager there, the speed dating interviews give candidates a chance to experience the fast-paced way we do business, and to see firsthand our employees' commitment to customers, and to embracing change, and working in teams. For Zulily, a realistic exposure to what it's like to work there has proven to be an effective way to select candidates who fit, and therefore to executing its strategy.⁹⁵



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Employee Testing and Selection

Employers such as Honda first train and then have applicants perform several of the job tasks, and then evaluate the candidates before hiring them.

One of the ironies of being a line manager in even the largest of companies is that, when it comes to screening employees, you're often on your own. Some large firms' HR departments may work with the hiring manager to design and administer the sorts of screening tools we discussed in this chapter. But in many of these firms, the HR departments do little more than some preliminary

prescreening (for instance, arithmetic tests for clerical applicants), and then follow up with background checks and drug and physical exams.

What should you do if you are, say, a marketing manager, and want to screen some of your job applicants more formally? It is possible to devise your own test battery, but caution is required. Purchasing and then using packaged intelligence tests or psychological tests or even tests of marketing ability could be problematical. Doing so may violate company policy, raise validity questions, and possibly expose employer liability if problems arise.

A preferred approach is to devise and use screening tools, the face validity of which is obvious. The work sampling test we discussed

is one example. It's not unreasonable, for instance, for the marketing manager to ask an advertising applicant to spend half an hour designing an ad, or to ask a marketing research applicant to quickly outline a marketing research program for a hypothetical product. Similarly, a production manager might reasonably ask an inventory control applicant to spend a few minutes using a standard inventory control model to solve an inventory problem.



Joerg Boethling / Alamy Stock Photo

For small business owners, some tests' ease of use makes them particularly good for small firms. One is the *Wonderlic Personnel Test*; it measures general mental ability in about 15 minutes. The tester reads the instructions, and then keeps time as the candidate works through the 50 short problems on two pages. The tester scores the test by totaling the number of correct answers. Comparing the person's score with the minimum scores recommended for various occupations shows whether the person achieved the minimally acceptable score

TABLE 6-1 Evaluation of Selected Assessment Methods

Assessment Method	Validity	Adverse Impact	Costs (Develop/Administer)
Cognitive ability tests	High	High (against minorities)	Low/low
Job knowledge test	High	High (against minorities)	Low/low
Personality tests	Low to moderate	Low	Low/low
Integrity tests	Moderate to high	Low	Low/low
Structured interviews	High	Low	High/high
Situational judgment tests	Moderate	Moderate (against minorities)	High/low
Work samples	High	Low	High/high
Assessment centers	Moderate to high	Low to moderate, depending on exercise	High/high
Physical ability tests	Moderate to high	High (against females and older workers)	High/high

Source: From Selection Assessment Methods, SHRM Foundation, 2005. Reprinted by permission from SHRM Foundation.

for the type of job in question. The *Predictive Index* measures work-related personality traits on a two-sided sheet. For example, there is the “social interest” pattern for a person who is generally unselfish, congenial, and unassuming. This person would be a good personnel interviewer, for instance. A template makes scoring simple.

Finally, for some jobs past performance is a more useful predictor of performance than are formal selection tests. For example, one study of prospective NFL players concluded that collegiate performance was a significantly better predictor of NFL performance than were physical ability tests.⁹⁶ ■



Background Investigations and Other Selection Methods

Testing is only part of an employer's selection process. Other tools may include background investigations and reference checks, preemployment information services, honesty testing, and substance abuse screening.

LEARNING OBJECTIVE 6-5

Describe four ways to improve an employer's background checking process.

Why Perform Background Investigations and Reference Checks?

In a recent development following allegations of mismanagement and corruption in the court, the Supreme Court of India stepped up the process of background verifications (called character and antecedent verification) of prospective employees.⁹⁷

One major company was about to announce a new CEO until they discovered he had a wife and two children in one state as well as a wife and two children in another state.⁹⁸ More mundanely, the recruiter HireRight in U.S. found that

of the over 600,000 educational verifications they did in one 12-month period, 32% had discrepancies.⁹⁹

One of the easiest ways to avoid hiring mistakes is to check the candidate's background thoroughly. Doing so is inexpensive and (if done right) useful. There's usually no reason why even supervisors in large companies can't check the references of someone they're about to hire, as long as they know the rules.

Most employers check and verify the job applicant's background information and references. In one survey of about 700 human resource managers, 87% said they conduct reference checks, 69% conduct background employment checks, 61% check employee criminal records, 56% check employees' driving records, and 35% sometimes or always check credit.¹⁰⁰ Commonly verified data include legal eligibility for employment (in compliance with immigration laws), dates of prior employment, military service (including discharge status), education, identification (including date of birth and address to confirm identity), criminal records (current residence, last residence), motor vehicle record, credit, licensing verification, Aadhaar and Pan number, and reference checks.¹⁰¹ Some employers check executive candidates' civil litigation records, with the candidate's prior approval.¹⁰² Some states prohibit private employers from asking about criminal records on initial written applications.¹⁰³ Some employers also do ongoing due diligence background checks for current employees.¹⁰⁴

There are two main reasons to check backgrounds—to verify the applicant's information (name and so forth) and to uncover damaging information.¹⁰⁵ Lying on one's application isn't unusual. A survey found that 23% of 7,000 executive résumés contained exaggerated or false information.¹⁰⁶ A study conducted in India in 2017, by AuthBridge indicated that instances of misrepresentation in CVs is increasing in India. 15.21% employers misrepresented information to employers, i.e., one in six employees.¹⁰⁷ Many employers are also criticized for background checks to save costs. While the trend is catching in organized sector, the small industry and un-organized employers do not focus on proper background check.¹⁰⁸

How deeply you search depends on the position. For example, a credit check is more important for hiring an accountant than a groundskeeper. In any case, also periodically check the credit ratings of employees (like cashiers) who have easy access to company assets, and the driving records of employees who use company cars.

Yet most managers don't view references as very useful. Few employers will talk freely about former employees. For example, in one poll, the Society for Human Resource Management found that 98% of 433 responding members said their organizations would verify dates of employment for current or former employees. However, 68% said they wouldn't discuss work performance; 82% said they wouldn't discuss character or personality; and 87% said they wouldn't disclose a disciplinary action.¹⁰⁹

Many supervisors don't want to damage a former employee's chances for a job; others might prefer giving an incompetent employee good reviews to get rid of him or her.

Another reason is legal particularly in the U.S. Employers providing references generally can't be successfully sued for defamation unless the employee can show "malice"—that is, ill will, culpable recklessness, or disregard of the employee's rights.¹¹⁰ But many managers and companies understandably still don't want the grief.



KNOW YOUR EMPLOYMENT LAW

Giving References

U.S. Federal laws that affect references include the Privacy Act of 1974, the Fair Credit Reporting Act of 1970, the Family Education Rights and Privacy Act of 1974 (and Buckley Amendment of 1974), and the Freedom of Information Act of 1966. They give people the right to know the nature and substance of information in their credit files and files with government agencies, and (Privacy Act) to review records pertaining to them from any private business that contracts with a federal agency. The person may thus see your comments.¹¹¹ The employer must also adhere to the Fair Credit Reporting Act's requirements. For instance, make sure applicants consent to having their credit checked.¹¹²

Beyond that, common law (and in particular the tort of defamation) applies to any information you supply. Communication is defamatory if it is false and tends to harm the reputation of another by lowering the person in the estimation of the community or by deterring other persons from dealing with him or her.

Truth is not always a defense. In some states, employees can sue employers for disclosing to a large number of people true but embarrassing private facts about the employee. One older case involved a supervisor shouting that the employee's wife had been having sexual relations with certain people. The jury found the employer liable for invasion of the couple's privacy and for intentional infliction of emotional distress.¹¹³

Although the risk of suit may be low,¹¹⁴ the net result is that most employers and managers restrict who can give references and what they can say. (One study found a "culture of silence" among hospitals regarding sharing such information.)¹¹⁵ As a rule, only authorized managers should provide information. Other suggestions include "Don't volunteer information," "Avoid vague statements," and "Do not answer trap questions such as, 'Would you rehire this person?'" In practice, many firms have a policy of not providing any information about former employees except for their dates of employment, last salary, and position titles.¹¹⁶

(However, *not* disclosing relevant information can be dangerous, too. In one case, a U.S. company fired an employee for allegedly bringing a handgun to work. After his next employer fired him for absenteeism, he returned to that company and shot several employees. The injured parties and their relatives sued the previous employer, who had provided the employee with a clean letter of recommendation.) ■



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Digital tools are changing the background-checking process. Employers are Googling applicants or checking Facebook and LinkedIn, and what they're finding isn't always pretty. One candidate described his interests on Facebook as smoking pot and shooting people. The student may have been kidding, but didn't get the job.¹¹⁷ An article called "Funny, They Don't Look Like My References" notes that the LinkedIn premium service "Reference Search" lets employers identify people in their own networks who worked for the same company when a job candidate did, and to thus use them to get references on the candidate.¹¹⁸ According to LinkedIn, you just select Reference Search, then enter a company name, candidate's

FIGURE 6-8 Reference Checking Form

Source: Reprinted with permission of the Society for Human Resource Management (www.shrm.org), Alexandria, VA 22314.

(Verify that the applicant has provided permission before conducting reference checks.)

Candidate
Name _____

Reference
Name _____

Company
Name _____

Dates of Employment
From: _____ To: _____

Position(s)
Held _____

Salary
History _____

Reason for
Leaving _____

Explain the reason for your call and verify the above information with the supervisor (including the reason for leaving)

1. Please describe the type of work for which the candidate was responsible.

2. How would you describe the applicant's relationships with coworkers, subordinates (if applicable), and with superiors?

3. Did the candidate have a positive or negative work attitude? Please elaborate.

4. How would you describe the quantity and quality of output generated by the former employee?

5. What were his/her strengths on the job?

6. What were his/her weaknesses on the job?

7. What is your overall assessment of the candidate?

8. Would you recommend him/her for this position? Why or why not?

9. Would this individual be eligible for rehiring? Why or why not?

Other comments?

name, and the timeframe, and click search. Employers are integrating such tools with software solutions such as Oracle's Taleo system, to facilitate obtaining such information and then integrating it into the candidate's dashboard-accessible profile. Currently, many Indian employers are also viewing social media profiles of candidate. It's possible that some candidates were refused job offers after they were screened for social media activity. In India, however still, the most common method used is that employers or HR managers use their personal networks and contacts to collect background information.

Web and social media background searches can be problematical. Although applicants usually don't list race, age, disability or ethnic origin on their résumés, their Facebook pages may reveal such information, setting the stage for possible legal claims or allegations against the employer. Disclosure requirements under RTI (Right to Information) require that Government organizations and PSUs clarify the criterion applied during selection, and rejecting a candidate based on social media information can be contested. Or, an overeager supervisor might conduct his or her own Facebook page "background check."¹¹⁹

In any case, it's probably best to get the candidate's prior approval for a social state networking search.¹²⁰ And do not use a pretext or fabricate an identity.¹²¹ In U.S., Maryland state law restricts employer demands for applicant usernames and passwords.¹²² Other states will undoubtedly follow.

The solution isn't necessarily to prohibit the legitimate use of social media-based information in U.S. Instead, follow intelligent social media staffing policies and procedures. For example, inform employees and prospective employees ahead of time regarding what information the employer plans to review. Assign one or two specially trained human resource professionals to search social media sites. And warn unauthorized employees (such as prospective supervisors) about accessing such information.¹²³ ■

In India, collecting background data used to be a difficult task. To overcome this challenge, from July 1, 2017, the State Bank of India has made Aadhaar number mandatory for its recruitment applications. The purpose was to establish candidate's identity at all stages of hiring.¹²⁴

Using Preemployment Information Services

It is easy to have employment screening services check out applicants. Big providers include Accurate Background (accuratebackground.com), First Advantage (FADV.com), HireRight LLC (hireright.com), and Sterling Talent Solutions (<https://www.sterlingtalentsolutions.com/>).¹²⁵ In India, background verifications can be conducted by Aadhaar verification (for biometrics, residence and bank details), National Academic Depository where details of educational (www.nad.gov.in) and National Skills Registry for specific skills related information. Police verification is required for government jobs. For employment in jobs like domestic help and other services, police department have devised schemes where identity, antecedents and character is verified. The process by Delhi police includes visit by beat constable to the employees residence and verifying address and identity.¹²⁶ They (the verifying agencies) use databases to access information about matters such as workers' compensation, credit histories, and conviction and driving records. For example, retail employers use First Advantage Corporation's Esteem Database to see if their job candidates have previously been involved in suspected retail thefts.¹²⁷ Another firm advertises that for less than \$50 it will do a criminal history report, motor vehicle/driver's record report, and (after the person is hired) a workers'

compensation claims report history, plus confirm identity, name, and Social Security number. There are thousands of databases, including sex offender registries and criminal and educational histories. Blockchain technology expedites checking applicants' credentials. For example, when a university issues a digital diploma, the *blockcerts* mobile app creates a unique "fingerprint" of it. This facilitates quickly confirming the degree's legitimacy.¹²⁸

There are three reasons to use caution with background checking services.¹²⁹ First, laws apply and employees consent has to be obtained to access records like Aadhaar, NAD etc. So be careful not to use the product of an unreasonable investigation.

Second, various laws govern how employers acquire and use applicants' and employees' background information.

Finally, the criminal background information may be flawed if it is not collected properly. Many unauthorized agencies return "possible matches" for the wrong person (who happens to be a criminal).¹³⁰

Steps for Making the Background Check More Valuable

There are steps one can take to improve the usefulness of the background information being sought. Specifically:

- Include on the application form a statement for applicants to sign explicitly authorizing a background check, such as:

I hereby certify that the facts set forth in the above employment application are true and complete to the best of my knowledge. I understand that falsified statements or misrepresentation of information on this application or omission of any information sought may be cause for dismissal, if employed, or may lead to refusal to make an offer and/or to withdrawal of an offer. I also authorize investigation of credit, employment record, driving record, and, once a job offer is made or during employment, workers' compensation background if required.

- Phone references tend to produce more candid assessments. Use a form, such as Figure 6-8. Remember that you can get relatively accurate information regarding dates of employment, eligibility for rehire, and job qualifications. It's more difficult to get other background information (such as reasons for leaving a previous job).¹³¹
- Persistence and attentiveness to possible red flags improve results. For example, if the former employer hesitates or seems to qualify his or her answer, don't go on to the next question. Try to unearth what the applicant did to make the former employer pause. If he says, "Samir Kumar requires some special care," say, "Special care?"
- Compare the application to the résumé; people tend to be more creative on their résumés than on their application forms, where they must certify the information.
- Try to ask open-ended questions (such as, "How much structure does the applicant need in his/her work?") to get the references to talk more about the candidate. But keep in mind:¹³² Stick to information that you're going to use; using arrest information is highly problematical; use information that is specific and job related; many states and municipalities prohibit asking about salary history; and keep information confidential.

- Ask the references supplied by the applicant to suggest other references. You might ask each of the applicant's references, "Could you give me the name of another person who might be familiar with the applicant's performance?" Then you begin getting information from references that may be more objective, because they did not come directly from the applicant (or use LinkedIn's Reference Search service).
- Aim for "360" reference checking: A full picture requires contacting the person's former supervisors, colleagues, and subordinates.¹³³

polygraph

A device that measures physiological changes like increased perspiration, on the assumption that such changes reflect lying.

The Polygraph and Honesty Testing

The **polygraph** is a device that measures physiological changes like increased perspiration. The assumption is that such changes reflect changes in emotional state that accompany lying.

In India, the government conducts background checks for key appointments, using state machinery like the police and vigilance departments. This cannot be equated with polygraph testing. In U.S. Local, state, and federal government employers (including the FBI) can use polygraphs for selection screening and other purposes, but state laws restrict many local and state governments. Private employers can use polygraph testing, but only under strictly limited circumstances.¹³⁴ These include firms in the U.S. with national defense or security contracts, and private businesses (1) hiring private security personnel, (2) hiring persons with access to drugs, or (3) some doing ongoing investigations, such as a theft. In India, polygraphs testing, even for criminal investigations, can only be conducted by law enforcement authorities with the approval of courts and under strict guidelines passed by the Human Rights Commission. Hence, polygraph tests cannot be used for employee selection.¹³⁵

WRITTEN HONESTY TESTS There are psychological tests designed to predict job applicants' proneness to dishonesty and other forms of counterproductivity.¹³⁶ Most measure attitudes regarding things like tolerance of others who steal and admission of theft-related activities. They include the MINT test of integrity, published by Assessio (www.assessio.com/).¹³⁷

Psychologists were initially skeptical about paper-and-pencil honesty tests, but studies support such tests' validity.¹³⁸ One study involved 111 employees hired by a convenience store chain to work at store or gas station counters.¹³⁹ The firm estimated that "shrinkage" equaled 3% of sales, and believed that internal theft accounted for much of this. Scores on an honesty test successfully predicted theft here (as measured by termination for theft).

graphology

The use of handwriting analysis to determine the writer's personality characteristics and moods, and even illnesses, such as depression.

Graphology is the use of handwriting analysis to determine the writer's personality characteristics and moods, and even illnesses, such as depression.¹⁴⁰ It thus bears some resemblance to projective personality tests, although graphology's validity is highly suspect. The handwriting analyst studies an applicant's handwriting and signature to discover the person's needs, desires, and psychological makeup. In one typical example, the graphologist notes that a writing sample has small handwriting, a vertical stance, and narrow letters (among other things) and so is indicative of someone with uptight tendencies. One recent study reports successfully identifying writers' genders through graphology.¹⁴¹ There are computerized systems for expediting graphology analyses.¹⁴²

Most scientific studies suggest graphology has little or no validity, or that when graphologists do accurately size up candidates, it's because they were also privy to other background information. Yet some firms have embraced it.¹⁴³ Given the practical need to validate selection tools, most experts shun it. Though not very popular, few Indian firms also use graphology for pre-employment screening, and as inputs for decision making.¹⁴⁴

“HUMAN LIE DETECTORS” Some employers use so-called human lie detectors, experts who may (or may not) be able to identify lying just by watching candidates.¹⁴⁵ One Wall Street firm uses a former FBI agent. He sits in on interviews and watches for signs of candidate deceptiveness. Signs include pupils changing size (fear), irregular breathing (nervousness), crossing legs (“liars distance themselves from an untruth”), and quick verbal responses (scripted statements).

TESTING FOR HONESTY: PRACTICAL GUIDELINES With or without testing, there's a lot a manager can do to screen out dishonest applicants or employees. Specifically:

- Ask blunt questions.¹⁴⁶ Says one expert, there is nothing wrong with asking the applicant direct questions, such as, “Have you ever stolen anything from an employer?” “Have you recently held jobs other than those listed on your application?” “Is any information on your application misrepresented or falsified?”
- Listen carefully. Thus liars may try to answer direct questions somewhat evasively. For example, ask them if they've ever used drugs, and they might say, “I don't take drugs.”¹⁴⁷
- Watch for telltale body signals. For example, someone who is not telling the truth may move his or her body slightly away from you.¹⁴⁸ Establish a baseline by seeing how the person's body is positioned when he or she is undoubtedly telling the truth. Know that it is *not* true that adult liars won't look you in the eye when they're lying; polished liars may actually do so excessively.¹⁴⁹
- Do a credit check. Include a clause in your application giving you the right to conduct background checks, including credit checks and motor vehicle reports.
- Check all employment and personal references.
- Use written honesty tests and psychological tests.
- It's also advised that companies establish a search-and-seizure policy, and conduct searches when required. Give each applicant a copy of the policy and require each to return a signed copy. The policy should state, “All lockers, desks, and similar property remain the property of the company and may be inspected routinely.”

Honesty testing requires caution. Having just taken and “failed” what is fairly obviously an “honesty test,” the candidate may leave the premises feeling mistreated. Some “honesty” questions also pose invasion-of-privacy issues.

Physical Exams

Once the employer extends the person a job offer, a medical exam is often the next step in selection (although it may also occur after the new employee starts work). According to government of India regulations, Medical Certificate of

fitness is mandatory for appointment.¹⁵⁰ The Factories Act 1948 stipulates mandatory medical test before employment for young persons and those to be engaged in hazardous processes.¹⁵¹

There are several reasons for preemployment medical exams: to verify that the applicant meets the job's physical requirements, to discover any medical limitations you should consider in placement, and to establish a baseline for future workers' compensation claims. Exams can also reduce absenteeism and accidents and detect communicable diseases.

Substance Abuse Screening

Most employers particularly abroad, conduct drug screenings, and many applicants are flunking the tests.¹⁵² The most common practice is to test candidates just before they're formally hired. Many also test current employees when there is reason to believe they've been using drugs—after a work accident, or with obvious behavioral symptoms such as chronic lateness. Some firms routinely administer drug tests on a random or periodic basis, while others require drug tests when they transfer or promote employees to new positions. Most employers that conduct such tests use urine sampling.

Drug testing, while ubiquitous, is neither as simple nor as effective as it might appear. First, no drug test is foolproof. Some urine sample tests can't distinguish between legal and illegal substances; for example, Advil can produce positive results for marijuana. Furthermore, there's a cottage industry offering products that purportedly help applicants pass drug tests (*Google products for beating drug tests*).¹⁵³ (Employers should view the presence of adulterants in a sample as a positive test.)

There's also the question of what is the point. Unlike roadside breathalyzers for DUI drivers, tests for drugs show only whether drug residues are present; they do not indicate impairment (or, for that matter, habituation or addiction). To paraphrase one pundit, "Do you really want to fire someone for using marijuana at home?"¹⁵⁴ Some therefore argue that testing is not justifiable on the grounds of boosting workplace safety.¹⁵⁵ Many feel the testing procedures themselves are degrading and intrusive. Many employers reasonably counter that they don't want drug-prone employees on their premises. In most Indian companies, reporting to work intoxicated or drugged is considered a violation of code of conduct which can even lead to dismissal.



Complying with U.S. Immigration Law

Employees hired in the United States from abroad, must prove they are eligible to work here. The requirement to verify eligibility does not provide any basis to reject an applicant. In recent times, hiring and sending Indian employees by IT/ITES companies to U.S. has been matter of public debate. Just because he or she is a foreigner, not a U.S. citizen, or an alien residing in the United States, as long as that person can prove his or her identity and employment eligibility. To comply with this law, employers should follow procedures outlined in the so-called I-9 Employment Eligibility Verification form. Recently the federal government has been tightening its oversight.¹⁵⁶ Many employers are using the federal government's voluntary electronic employment verification program, E-Verify.¹⁵⁷ Federal contractors must use it.¹⁵⁸ There is no charge to use E-Verify.¹⁵⁹ Many employers now use automated I-9 verification systems with drop-down menus to electronically compile and submit applicants' I-9 data.¹⁶⁰ The I-9 forms contain a prominent "antidiscrimination notice."¹⁶¹

Applicants can prove their eligibility for employment in two ways. One is to show a document (such as a U.S. passport or alien registration card with photograph) that proves both identity and employment eligibility. The other is to show a document that proves the person's identity, along with a second document showing his or her employment eligibility, such as a work permit.¹⁶² In any case, it's always advisable to get two forms of proof of identity.

Identity theft—undocumented workers stealing and using an authorized worker's identity—is a problem even with E-Verify.¹⁶³ The federal government is tightening restrictions on hiring undocumented workers. Realizing that many documents are fakes, the government is putting the onus on employers to make sure whom they're hiring.

Chapter Review

Chapter Section Summaries

- 6-1. Careful **employee selection is important** for several reasons. Your own performance always depends on your subordinates; it is costly to recruit and hire employees; and mismanaging the hiring process has various legal implications including equal employment, negligent hiring, and defamation.
- 6-2. Whether you are administering tests or making decisions based on test results, managers need to understand several **basic testing concepts**. Reliability refers to a test's consistency, while validity tells you whether the test is measuring what you think it's supposed to be measuring. Criterion validity means demonstrating that those who do well on the test also do well on the job while content validity means showing that the test constitutes a fair sample of the job's content. Validating a test involves analyzing the job, choosing the tests, administering the test, relating your test scores and criteria, and cross-validating and revalidating. Test takers have rights to privacy and feedback as well as to confidentiality.
- 6-3. Whether they are administered via paper and pencil, by computer, or online, we discussed several main **types of tests**. Tests of cognitive abilities measure things like reasoning ability and include intelligence tests and tests of specific cognitive abilities such as mechanical comprehension. There are also tests of motor and physical abilities, and measures of personality and interests. With respect to personality, psychologists often focus on the "big five" personality dimensions: extroversion, emotional stability/neuroticism, agreeableness, conscientiousness, and openness to experience. Achievement tests measure what someone has learned.
- 6-4. With **work samples and simulations**, you present examinees with situations representative of the jobs for which they are applying. One example is the management assessment center, a 2- to 3-day simulation in which 10 to 12 candidates perform realistic management tasks under the observation of experts who appraise each candidate's leadership potential. Video-based situational testing and the miniature job training and evaluation approach are two other examples.
- 6-5. Testing is only part of an employer's selection process; you also want to conduct **background investigations and other selection procedures**.
 - The main point of doing a background check is to verify the applicant's information and to uncover potentially damaging information. However, care must be taken, particularly when giving a reference, that the employee not be defamed and that his or her privacy rights are maintained.
 - Given former employers' reluctance to provide a comprehensive report, those checking references need to do several things. Make sure the applicant explicitly authorizes a background check, use a checklist or form for obtaining telephone references, and be persistent and attentive to potential red flags.

- Given the growing popularity of computerized employment background databases, many or most employers use pre-employment information services to obtain background information.
- For many types of jobs, honesty testing is essential, and paper-and-pencil tests have proven useful.

Discussion Questions

- 6-1. What is the difference between reliability and validity?
- 6-2. Explain why you think a certified psychologist who is specifically trained in test construction should (or should not) be used by a small business that needs an employment test.
- 6-3. Why is it important to conduct pre-employment background investigations? How would you do so?
- 6-4. Explain how you would get around the problem of former employers being unwilling to give bad references on their former employees.
- 6-5. How can employers protect themselves against negligent hiring claims?

Individual and Group Activities

- 6-6. Write a short essay discussing some of the ethical and legal considerations in testing.
- 6-7. Working individually or in groups, develop a list of specific selection techniques that you would suggest your dean use to hire the next HR professor at your school. Explain why you chose each selection technique.
- 6-8. Working individually or in groups, contact the publisher of a standardized test such as the Scholastic Assessment Test, and obtain from it written information regarding the test's validity and reliability. Present a short report in class discussing what the test is supposed to measure and the degree to which you think the test does what it is supposed to do, based on the reported validity and reliability scores.
- 6-9. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone



studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

A Test for a Reservation Clerk

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Purpose: The purpose of this exercise is to give you practice in developing a test to measure *one specific ability* for the job of airline reservation clerk for a major airline. If time permits, you'll be able to combine your tests into a test battery.

Required Understanding: An airline has decided to outsource its reservation jobs to India. You should

be fully acquainted with the procedure for developing a personnel test and should read the following description of an airline reservation clerk's duties:

Customers contact our airline reservation clerks to obtain flight schedules, prices, and itineraries. The reservation clerks look up the requested information on our airline's online flight schedule systems, which are updated continuously. The reservation clerk must speak clearly in English and Hindi, deal courteously

and expeditiously with the customer, and be able to find quickly alternative flight arrangements in order to provide the customer with the itinerary that fits his or her needs. Alternative flights and prices must be found quickly, so that the customer is not kept waiting, and so that our reservations operations group maintains its efficiency standards. There may be a dozen or more alternative routes between the customer's starting point and destination.

You may assume that we will hire about one-third of the applicants as airline reservation clerks. Therefore, your objective is to create a test that is useful in selecting a third of those available.

How to Set Up the Exercise/Instructions: Divide the class into teams of five or six students. The ideal

candidate will need to have a number of skills to perform this job well. Your job is to select a single skill and to develop a test to measure that skill. Please use only the materials available in the room. The test should permit quantitative scoring and may be an individual or a group test.

Please go to your assigned groups. As per our discussion of test development in this chapter, each group should make a list of the skills relevant to success in the airline reservation clerk's job. Each group should then rate the importance of these skills on a 5-point scale. Then, develop a test to measure what you believe to be the top-ranked skill. If time permits, the groups should combine the various tests from each group into a test battery. If possible, leave time for a group of students to take the test battery.

Application Case

The Insider

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A federal jury convicted a stock trader who worked for a well-known investment firm, along with two alleged accomplices, of insider trading. According to the indictment, the trader got inside information about pending mergers from lawyers. The lawyers allegedly browsed around their law firm picking up information about corporate deals others in the firm were working on. The lawyers would then allegedly pass their information on to a friend, who in turn passed it on to the trader. Such "inside" information reportedly helped the trader (and his investment firm) earn millions of dollars. The trader would then allegedly thank the lawyers, for instance, with envelopes filled with cash.

Things like that are not supposed to happen. Federal and state laws prohibit them. And investment firms have their own compliance procedures to identify and head off shady trades. The problem is that controlling such behavior once the firm has someone working for it who may be prone to engage in inside trading

isn't easy. "Better to avoid hiring such people in the first place," said one pundit.

Over lunch at Bouley restaurant in Manhattan's TriBeCa area, the heads of several investment firms were discussing the conviction, and what they could do to make sure something like that didn't occur in their firms. "It's not just compliance," said one. "We've got to keep out the bad apples." They ask you for your advice.

Questions

- 6-10. We want you to design an employee selection program for hiring stock traders. We already know what to look for as far as technical skills are concerned—accounting courses, economics, and so on. What we want is a program for screening out potential bad apples. To that end, please let us know the following: What screening test(s) would you suggest, and why? What questions should we add to our application form? Specifically how should we check candidates' backgrounds, and what questions should we ask previous employers and references?
- 6-11. What else (if anything) would you suggest?

Continuing Case

Carter Cleaning Company

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Honesty Testing

Jennifer Carter, of the Carter Cleaning Centers, and her father have what the latter describes as an easy but hard job when it comes to screening job applicants. It is easy because for two

important jobs—the people who actually do the pressing and those who do the cleaning/spotting—the applicants are easily screened with about 20 minutes of on-the-job testing. As with typists, Jennifer points out, "Applicants either know how to press clothes fast or how to use cleaning chemicals and machines, or they don't, and we find out very quickly by just trying them out on the job." On the other hand, applicant screening for the stores can also be frustratingly hard because of the nature of some of

the other qualities that Jennifer would like to screen for. Two of the most critical problems facing her company are employee turnover and employee honesty. Jennifer and her father sorely need to implement practices that will reduce the rate of employee turnover. If there is a way to do this through employee testing and screening techniques, Jennifer would like to know about it because of the management time and money that are now being wasted by the never-ending need to recruit and hire new employees. Of even greater concern to Jennifer and her father is the need to institute new practices to screen out those employees who may be predisposed to steal from the company.

Employee theft is an enormous problem for the Carter Cleaning Centers, and not just cash. For example, the cleaner/spotter often opens the store without a manager present, to get the day's work started, and it is not unusual for that person to "run a route." Running a route means that an employee canvasses his or her neighborhood to pick up people's clothes for cleaning and then secretly cleans and presses them in the Carter store, using the company's supplies, gas, and power. It would also not be unusual for an unsupervised person (or his or her supervisor, for that matter) to accept a 1-hour rush order for cleaning or laundering, quickly clean and press the item, and return it to the customer for payment without making out a proper ticket for the item posting the sale. The money, of course, goes into the worker's pocket instead of into the cash register.

The more serious problem concerns the store manager and the counter workers who actually handle the cash. According to Jack Carter, "You would not believe the creativity employees use to get around the management controls we set up to cut down on employee theft." As one extreme example of this felonious creativity, Jack tells the following story: "To cut down on the

amount of money my employees were stealing, I had a small sign painted and placed in front of all our cash registers. The sign said: YOUR ENTIRE ORDER FREE IF WE DON'T GIVE YOU A CASH REGISTER RECEIPT WHEN YOU PAY. CALL 552-0235. It was my intention with this sign to force all our cash-handling employees to give receipts so the cash register would record them for my accountants. After all, if all the cash that comes in is recorded in the cash register, then we should have a much better handle on stealing in our stores. Well, one of our managers found a way around this. I came into the store one night and noticed that the cash register this particular manager was using just didn't look right, although the sign was placed in front of it. It turned out that every afternoon at about 5:00 p.m. when the other employees left, this character would pull his own cash register out of a box that he hid underneath our supplies. Customers coming in would notice the sign and, of course, the fact that he was meticulous in ringing up every sale. But unknown to them, for about 5 months the sales that came in for about an hour every day went into his cash register, not mine. It took us that long to figure out where our cash for that store was going."

Here is what Jennifer would like you to answer:

Questions

- 6-12. What would be the advantages and disadvantages to Jennifer's company of routinely administering honesty tests to all its employees?
- 6-13. Specifically, what other screening techniques could the company use to screen out theft-prone and turnover-prone employees, and how exactly could these be used?
- 6-14. How should her company terminate employees caught stealing, and what kind of procedure should be set up for handling reference calls about these employees when they go to other companies looking for jobs?

Translating Strategy into HR Policies and Practices Case^S

Improving Performance at the Hotel Paris

The New Employee Testing Program

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance, by eliciting the required employee behaviors and competencies.

As she considered what to do next, Lisa Cruz, the Hotel Paris's HR director, knew that employee selection had to play a role. The Hotel Paris currently had an informal screening process in which local hotel managers obtained application forms, interviewed applicants, and checked their references. However, a pilot project using an employment test for service people at the Chicago hotel had produced startling results. Lisa found consistent, significant relationships between test performance and a range of employee competencies and behaviors such as speed of check-in/out,

employee turnover, and percentage of calls answered with the required greeting. She knew that such employee capabilities and behaviors translated into the improved guest service performance the Hotel Paris needed to execute its strategy. She therefore had to decide what selection procedures would be best.

Lisa's team, working with an industrial psychologist, designs a test battery that they believe will produce the sorts of high-morale, patient, people-oriented employees they are looking for. It includes a preliminary, computerized test in which applicants for the positions of front-desk clerk, door person, assistant manager, and security guard must deal with an apparently irate guest; a work sample in which front-desk clerk candidates spend 10 minutes processing an incoming "guest"; a personality test aimed at weeding out applicants who lack emotional stability; the Wonderlic test of mental ability; and the Phase II Profile for assessing candidate honesty. Their subsequent validity analysis shows that scores on the test batteries predict scores on the hotel's employee capabilities and behavior metrics. A second analysis confirmed that, as the percentage of employees hired

after testing rose, so too did the hotel's employee capabilities and behaviors scores, for instance (see the strategy map), in terms of speed of check-in/out, and the percent of guests receiving the Hotel Paris required greeting.

Lisa and the CFO also found other measurable improvements apparently resulting from the new testing process. For example, it took less time to fill an open position, and cost per hire diminished, so the HR department became more efficient. The new testing program thus did not only contribute to the hotel's performance by improving employee capabilities and behaviors. It also did so by directly improving profit margins and profits.

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Questions

- 6-15. Provide a detailed example of a security guard work "sampletest."
- 6-16. Provide a detailed example of two personality test items you would suggest they use, and why you would suggest using them.
- 6-17. Based on what you read here in this Dessler *Human Resource Management* chapter, what other tests would you suggest to Lisa, and why would you suggest them?
- 6-18. How would you suggest Lisa try to confirm that it is indeed the testing and not some other change that accounts for the improved performance.

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Endnotes

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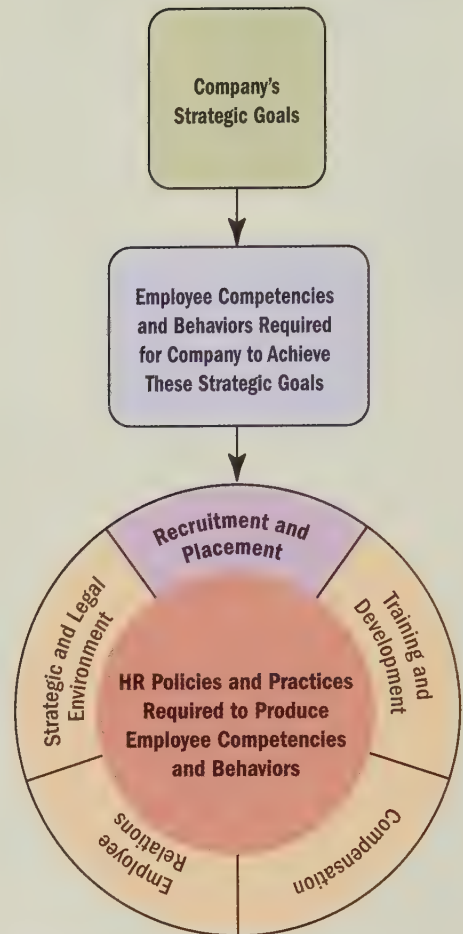
Interviewing Candidates

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 7-1** Give examples of the main types of selection interviews.
- 7-2** Give examples of the main errors that can undermine an interview's usefulness.
- 7-3** Define a structured situational interview and explain how to conduct effective selection interviews.
- 7-4** Give examples of how to use employee selection to improve employee engagement.
- 7-5** List the main points in developing and extending the actual job offer.

Recruitment of customer service and tellers in banks is never an easy task. Although the job entails significant responsibilities and dealings, especially with difficult customers, the positions are not highly paid. However, the turnover of these personnel is high. The head of recruiting for a private bank in India needed an interviewing system that could process large number of applicants quickly, but effectively. In this chapter, we will see as to what the recruiters do in similar situations.



WHERE ARE WE NOW . . .

Chapter 6 discussed important tools managers use to select employees. Now we'll turn to one of these tools—the employment interview. The main topics we'll cover include **Types of Interviews**, **Things That Undermine Interviewing's Usefulness**, **Designing and Conducting Effective Selection Interviews**, **Using a Total Selection Process to Improve Employee Engagement**, and **Making the Offer**. In Chapter 8, we'll turn to training the new employee.

If the interview is just one of several selection tools, why devote a whole chapter to it? Because interviews are the most widely used selection procedure, and most people aren't nearly as good at interviewing as they think they are.¹



LEARNING OBJECTIVE 7-1

Give examples of the main types of selection interviews.

Basic Types of Interviews

Managers use several interviews at work, such as performance appraisal interviews and exit interviews. A *selection interview* (the focus of this chapter) is a selection procedure designed to predict future job performance based on applicants' oral responses to oral inquiries.² Many techniques in this chapter also apply to appraisal and exit interviews. However, we'll postpone discussions of those two interviews until later chapters.

There are several ways to conduct selection interviews. For example, we can classify selection interviews according to:

1. How *structured* they are
2. Their "content"—the *types of questions* they contain
3. How the firm *administers* the interviews (for instance, one-on-one or via a committee)

Each has pros and cons. We'll look at each.

Structured versus Unstructured Interviews

First, most interviews vary in the degree to which the interviewer structures the interview process.³ In **unstructured (or nondirective) interviews**, the manager follows no set format. A few questions might be specified in advance, but they're usually not, and there is seldom a formal guide for scoring "right" or "wrong" answers. Typical questions here might include, for instance, "Tell me about yourself," "Why do you think you'd do a good job here?" and "What would you say are your main strengths and weaknesses?" Some describe this as little more than a general conversation.⁴

At the other extreme, in **structured (or directive) interviews**, the employer lists questions ahead of time, and may even weight possible alternative answers for appropriateness.⁵ McMurray's Patterned Interview was one early example. The interviewer followed a printed form to ask a series of questions, such as "How was the person's present job obtained?" Comments printed beneath the questions (such as "Has he/she shown self-reliance in getting his/her jobs?") then guide the interviewer in evaluating the answers. Some experts still restrict the term "structured interview" to interviews like these, which are based on carefully selected job-related questions with predetermined answers.

But in practice, interview structure is a matter of degree. Sometimes the manager may just want to ensure he or she has a list of questions to ask so as to avoid skipping any questions. Here, he or she might choose questions from a list like that in Figure 7-3 (page 250). The structured interview guide in Figure 7A-1 (pages 262–264) illustrates a more structured approach. As another example, a retail store in India can use the structured guide in Figure 7-1 (page 236) to help screen sales candidates. Many firms use HR technology to create a formal candidate rating procedure, and enables geographically dispersed interviewers to complete the form via the Web.

Structured interviews are generally the best.⁶ In such interviews, all interviewers generally ask all applicants the same questions. Partly because of this, these interviews tend to be more consistent, reliable, and valid. Having a standardized list of questions can also help less talented interviewers conduct better interviews. Standardizing the interview also enhances job relatedness (the questions chosen tend to provide insights into how the person will actually do the job), reduces overall subjectivity and thus the potential for bias, and

unstructured (or nondirective) interview

An unstructured conversational-style interview in which the interviewer pursues points of interest as they come up in response to questions.

structured (or directive) interview

An interview following a set sequence of questions.

may “enhance the ability to withstand legal challenge.”⁷ However, blindly following a structured format may not provide enough opportunity to pursue points of interest. The interviewer should always be able to ask follow-up questions and pursue points of interest as they develop. We’ll see how to create a structured interview later in this chapter.

Interview Content (What Types of Questions to Ask)

We can also classify interviews based on the “content” or the types of questions interviewers ask. Many interviewers ask relatively unfocused questions, such as “What do you want to be doing in 5 years?” Questions like these usually don’t provide much insight into how the person will do on the job. That is why *situational*, *behavioral*, and *job-related* questions are best.

In a **situational interview**, you ask the candidate what his or her behavior *would be* in a given situation.⁸ For example, ask a supervisory candidate how he or she would act in response to a subordinate coming to work late 3 days in a row.

Whereas situational interviews ask applicants to describe how they *would* react to a hypothetical situation today or tomorrow, **behavioral interviews** ask applicants to describe *how they reacted* to actual situations in the past.⁹

situational interview

A series of job-related questions that focus on how the candidate would behave in a given situation.

behavioral interview

A series of job-related questions that focus on how the candidate reacted to actual situations in the past.

FIGURE 7-1 Retail Sales Officer Applicant Interview Form

Source: Developed by Bijju Varkkey

SAMPLE INTERVIEW FORMAT IN XYZ CO.

Position: Sales Officer in Retail Store.

Application No:		Date		Time	
Name				Age	
Educational Qualifications					
Total Work Experience					

Note to interviewer: Add you observations in the space available in each box.

A. Quality of prior work experience, applicable in Retail Sales environment
1 (Low) 2 (Poor) 3 (Average) 4 (Good) 5 (Excellent)

B. Knowledge of Sales related processes and IT applications.
1 (Low) 2 (Poor) 3 (Average) 4 (Good) 5 (Excellent)

C. Selling and Customer Service Skills.
1 (Low) 2 (Poor) 3 (Average) 4 (Good) 5 (Excellent)

D. Potential for Retail Sales Role (relative to comparable role holders in XYZ)
1 (Low) 2 (Poor) 3 (Average) 4 (Good) 5 (Excellent)

E. Leadership Potential
1 (Low) 2 (Poor) 3 (Average) 4 (Good) 5 (Excellent)

Additional Remarks _____

Name of Panelist _____ Signature _____ Date _____

Situational questions start with phrases such as, “Suppose you were faced with the following situation. . . . What would you do?” *Behavioral* questions start with phrases like, “Can you think of a time when. . . . What did you do?”¹⁰ In one variant, Vanguard uses an interviewing technique it calls STAR. Vanguard managers ask interviewees about a particular situation (S) or task (T) they faced to uncover the actions (A) the candidates took, and the results (R) of their actions.¹¹

Behavioral interviews are increasingly popular.¹² Many Indian HR professionals emphasize the importance of behavioral assessment for selection, to avoid future risks and early attrition.¹³ When Citizen’s Banking Corporation in Flint, Michigan, U.S. found that 31 of the 50 people in its call center quit in one year, the center’s head switched to behavioral interviews. Many who left did so because they didn’t enjoy irate questions from clients. So, she no longer tries to predict how candidates will act based on asking them if they want to work with angry clients. Instead, she asks behavioral questions like, “Tell me about a time you were speaking with an irate person, and how you turned the situation around.” This makes it harder to fool the interviewer; only four people left in the following year.¹⁴

Financial audit and advisory companies such as, EY India and KPMG India, often conduct selection interview by giving a case study that includes a business scenario which provokes candidates to think out-of-box and find business solution to the case study problems. Most other consulting firms (like Bain & Company) also use case interviews extensively in their selection process.

Technical interviews which focus on the subject understanding of a candidate is another distinct feature of many Indian companies, particularly IT and technology firms. In such companies, the behavioral/cultural dimensions are separately assessed. However, a study of foreign and Indian companies operating in India showed that while interview as a selection tool is common across companies, multinational companies (MNCs) use technical interviews separately, more than others.¹⁵

job-related interview

A series of job-related questions that focus on relevant past job-related behaviors.

stress interview

An interview in which the applicant is made uncomfortable by a series of often rude questions. This technique helps identify hypersensitive applicants and those with low or high stress tolerance.

OTHER TYPES OF QUESTIONS In a **job-related interview**, the interviewer asks applicants questions about job-relevant past experiences. The questions here don’t revolve around hypothetical or actual situations or scenarios. Instead, the interviewer asks questions such as, “Which courses did you like best in business school?” The aim is to draw conclusions about, say, the candidate’s ability to handle the job’s financial aspects.

There are other, lesser-used types of questions. In a **stress interview**, the interviewer seeks to make the applicant uncomfortable with occasionally rude questions. The aim is supposedly to spot sensitive applicants and those with low (or high) stress tolerance. Thus, a candidate for a customer relations manager position who obligingly mentions having had four jobs in the past 2 years might be told that frequent job changes reflect irresponsible and immature behavior. If the applicant then responds with a reasonable explanation of why the job changes were necessary, the interviewer might pursue another topic. On the other hand, if the formerly tranquil applicant reacts explosively, the interviewer might deduce that the person has a low tolerance for stress.

The stress interview’s invasive and ethically dubious nature demands that the interviewer be both skilled in its use and sure the job really requires handling stress. This is definitely not an approach for amateur interrogators or for those without the skills to keep the interview under control. Indian banking

or financial companies conduct stress or pressure interviews, especially for the sales function, to see if the candidates can handle stress or pressure. Candidates are especially asked questions that would make them uncomfortable to see how they would respond to these questions.

The efficacy of stress interviews has been questioned by some HR professionals, both for the negative candidate experience it creates and the inputs.¹⁶ Recently, CEO of a UK based company had to tender public apology after a candidate posted experience in social media.¹⁷ Companies like Philips now mention in their career website about their approach to make selection interviews stress free, (replace stress with excitement) since its a process of mutual discovery.¹⁸

Puzzle questions are popular. Recruiters see how candidates think under pressure. For example, an interviewer at Microsoft asked a tech service applicant this: “Mike and Todd have \$21 between them. Mike has \$20 more than Todd does. How much money has Mike, and how much money has Todd?”¹⁹ (The answer is two paragraphs below.)

HR in Action at the Hotel Paris As an experienced HR professional, Lisa knew that the company’s new testing program would go only so far. To see how the Hotel Paris created a new interview process, see the case on page 254.

How Should We Conduct the Interview?

Employers also administer interviews in various ways: *one-on-one* or *by a panel of interviewers*, *sequentially* or *all at once*, *computerized* or *personally*, or *online*.

Most selection interviews are probably still *one-on-one* and *sequential*. In a one-on-one interview, two people meet alone, and one interviews the other by seeking oral responses to oral inquiries. Employers tend to schedule these interviews *sequentially*. In a *sequential (or serial) interview*, several persons interview the applicant, in sequence, one-on-one, and then make their hiring decision. In an **unstructured sequential interview**, each interviewer generally just asks questions as they come to mind. In a **structured sequential interview**, each interviewer rates the candidates on a standard evaluation form, using standardized questions. The hiring manager then reviews these ratings before deciding whom to hire.²⁰ (Answer: Mike had \$20.50, Todd \$0.50.)

A **panel interview**, also known as a board interview, is an interview conducted by a team of interviewers (usually two to three), who together question each candidate and then combine their ratings of each candidate’s answers into a final panel score. This contrasts with the *one-on-one interview* (in which one interviewer meets one candidate) and a *serial interview* (where several interviewers assess a single candidate one-on-one, sequentially).²¹ The panel format enables interviewers to ask follow-up questions, much as reporters do in press conferences. This may elicit more meaningful responses than a series of one-on-one interviews. On the other hand, some candidates find panel interviews more stressful, so they may actually inhibit responses. (An even more stressful variant is the **mass interview**. Here a panel interviews several candidates simultaneously. The panel might pose a problem, and then watches to see which candidate takes the lead in formulating an answer.)

Whether panel interviews are more or less reliable and valid than sequential interviews depends on how the employer actually does the panel interview. For example, *structured* panel interviews in which members use scoring sheets with

unstructured sequential interview

An interview in which each interviewer forms an independent opinion after asking different questions.

structured sequential interview

An interview in which the applicant is interviewed sequentially by several persons; each rates the applicant on a standard form.

panel interview

An interview in which a group of interviewers questions the applicant.

mass interview

A panel interviews several candidates simultaneously.

descriptive scoring examples for “good” and “bad” sample answers are more reliable and valid than those that don’t. Training panel interviewers may boost interview reliability.²²

For better or worse, some employers use “speed dating” interviewing. One sent e-mails to all applicants for an advertised position. Four hundred (of 800 applicants) showed up. Over several hours, applicants first mingled with employees, and then (in a so-called speed dating area) had one-on-one contacts with employees for a few minutes each. Based on this, the recruiting team chose 68 candidates for follow-up interviews.²³

PHONE INTERVIEWS Employers also conduct interviews via phone. Somewhat counterintuitively, these can actually be more useful than face-to-face interviews for judging one’s conscientiousness, intelligence, and interpersonal skills. Because they needn’t worry about appearance or handshakes, each party can focus on answers. And perhaps candidates—somewhat surprised by an unplanned call from the recruiter—give more spontaneous answers.²⁴ In one study, interviewers tended to evaluate applicants more favorably in telephone versus face-to-face interviews, particularly where interviewees were less physically attractive. The applicants preferred the face-to-face interviews.²⁵

COMPUTER-BASED JOB INTERVIEWS A *computerized selection interview* is one in which a job candidate’s oral and/or keyed replies are obtained in response to computerized oral, visual, or written questions and/or situations. Most such interviews present a series of multiple-choice questions regarding background, experience, education, skills, knowledge, and work attitudes. Some confront candidates with realistic scenarios (such as irate customers) to which they must respond.²⁶

ONLINE VIDEO INTERVIEWS With phone and tablet video functionalities like FaceTime™ and Skype™, Web-based “in-person” interview use is widespread; about 18% of candidates took such interviews in one study.²⁷ College career centers and outplacement firms use the InterviewStream 360 Video Practice Interview System, to have students or job seekers record interviews for their own development and for prospective employers.²⁸ InterviewStream, Inc. (www.InterviewStream.com) offers employer clients prerecorded and live video interview management systems for prescreening candidates and interviewing remote talent. Or, the client and candidate can use InterviewStream’s live video conference platform for a live interview.²⁹ Employers including Microsoft use the virtual community Second Life to conduct job interviews. Job seekers create avatars to represent themselves.³⁰ And as explained in Chapter 6, HireVue’s software analyzes its clients’ past video employment interviews for signs like facial expressions and voice modulation to determine which predict applicants’ suitability for jobs. Sonru.com and AutoView from Aspiringminds (<https://www.aspiringminds.com/interview/video-interview/>) allow recruiters to set questions and record video of candidates responses which can be viewed at leisure. Urban Outfitters (see below) uses similar software.

Hilton Worldwide recruits in 94 countries, so distances often make in-person interviews impractical. Now, online video interviews make it easy for Hilton to do initial screening interviews.³¹ Another firm’s CEO conducts initial screening interviews via text-only chats or instant messaging because, he says, it reduces potential distractions like gender, ethnicity, and body language.³²

An online video interview requires little special preparation for employers, but Career FAQs (www.careerfaqs.com.au) lists things that *interviewees* should keep in mind. It's often the obvious things people overlook (for more on how to take interviews, see Annexure 2 to this chapter, page 264):³³

- **Look presentable.** It might seem strange sitting at home in a suit, but it could make a difference.
- **Clean up the room.** Do not let the interviewer see clutter.
- **Test first.** As Career FAQs says, "Five minutes before the video interview is not a good time to realize that your Internet is down . . ."
- **Do a dry run.** Record yourself before the interview to see how you're "coming across."
- **Relax.** The golden rule with such interviews is to treat them like face-to-face meetings. Smile, look confident and enthusiastic, make eye contact, and don't shout, but do speak clearly.
- AutoView and ZingHR softwares have integrated AI and Machine Learning to hiring. AutoView claims that AI tools help to analyze the candidate's body language, voice, emotions and answer quality better, and provide analytics based insights. The application was used by a bank in India, to select few candidates from a pool of 20000 applicants. They report that 80% candidates rated the testing experience above 4 on 5 point scale.³⁴

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Asynchronous Interviews at Urban Outfitters

Asynchronous mobile device-based interviews let interviewees "do" the interview at their leisure from wherever they are, and the hiring managers to review the interviews at their leisure.³⁵

For example, Urban Outfitters wants store employees who share its core values of Community, Pride, Creativity, and Respect.³⁶ The question is, how does it find and attract such applicants, while controlling hiring costs in the competitive retail industry? Because it receives so many applications, the company first used group interviews for selecting sales associates. Retail managers would interview six to eight candidates at once, in a group interview. Store managers didn't think this was a good fit for Urban Outfitter's culture, though.

Urban Outfitters switched to HireVue on-demand interviews in its 200 retail stores. The HireVue system enabled applicants to watch videos about Urban Outfitters and the job, and then to respond in writing and by video to Urban's interview questions and instructions, at their leisure, "on demand." The hiring managers then reviewed the recorded interviews, usually outside of peak business hours when the stores weren't as busy.

The new system reportedly has been a boon to Urban Outfitters. It reduced screening time by 80%, lets store managers process many more applicants, and is preferred by applicants, 90% of whom can do their interviews after hours. The HireVue system also supports Urban Outfitters' strategy. As it says:

Moving to digital interviewing has transformed our hiring process into a true reflection of the Urban Outfitters culture. Our value in creativity and community and our nonconformist approach now begins with our candidate experience. No other initiative has impacted our hiring teams like digital recruiting has.

LEARNING OBJECTIVE 7-2

Give examples of the main errors that can undermine an interview's usefulness.

Avoiding Errors That Can Undermine an Interview's Usefulness

Interviews hold an ironic place in the hiring process: Everyone uses them, but they're generally not particularly valid. The key is to do them properly. If you do, then the interview is generally a good predictor of performance and is comparable with many other selection techniques.³⁷ Keep three things in mind—use structured interviews, know what to ask, and avoid the common interviewing errors.

First, *structure the interview*.³⁸ Structured interviews (particularly structured interviews using situational questions) are more valid than unstructured interviews for predicting job performance. They are more valid partly because they are more reliable—for example, the same interviewer administers the interview more consistently from candidate to candidate.³⁹ Situational structured interviews yield a higher mean validity than do job-related (or behavioral) interviews, which in turn yield a higher mean validity than do “psychological” interviews (which focus more on motives and interests).⁴⁰

Second, interviews are better at revealing some things than others, so know what to focus on. In one study, interviewers were able to size up the interviewee's extroversion and agreeableness. What they could *not* assess accurately were important traits like conscientiousness and emotional stability.⁴¹ Interview questions such as “Describe the work environment or culture in which you are most productive and happy” may help unearth cultural fit.⁴² One implication seems to be, focus more on situational and job knowledge questions that help you assess how the candidate will actually respond to typical situations on that job.

Third, whether the interview is in person or online, effective employment interviewers understand and avoid the following common interview errors.⁴³

First Impressions (Snap Judgments)

Interviewers tend to jump to conclusions—make snap judgments—about candidates during the first few minutes of the interview (or even before it starts, based on test scores or résumés). One researcher estimates that in 85% of the cases, interviewers had made up their minds before the interview even began, based on first impressions gleaned from candidates' applications and personal appearance.⁴⁴ In one study, giving interviewers the candidates' test scores biased the candidates' ultimate assessments. In another study, interviewers judged candidates who they were told once suffered from depression more negatively.⁴⁵ Even structured interviews are usually preceded by a brief discussion, and the impressions one makes here can contaminate even a structured interview's results.⁴⁶

First impressions are especially damaging when the prior information is negative. In one study, interviewers who previously received unfavorable reference letters about applicants gave those applicants less credit for past successes and held them more responsible for past failures after the interview. And the interviewers' final decisions (to accept or reject those applicants) *always* reflected what they expected of the applicants based on the references, quite aside from the applicants' actual interview performance.⁴⁷

Add to this two more interviewing facts. First, interviewers are more influenced by unfavorable than favorable information about the candidate. Second, their impressions are much more likely to change from favorable to

unfavorable than from unfavorable to favorable. Indeed, many interviewers mostly search for negative information, often without realizing it.

The bottom line is that most interviews are loaded against applicants. One who starts well could easily end up with a low rating because unfavorable information predominates. And for the interviewee who starts out poorly, it's almost impossible to overcome that first bad impression.⁴⁸ One psychologist interviewed CEOs of 80 top companies. She concluded that you “don't even get to open your mouth.”⁴⁹ Instead, the interviewer will size up your posture, handshake, smile, and “captivating aura.” It's difficult to overcome that first impression.

Not Clarifying What the Job Requires

Interviewers who don't have an accurate picture of what the job entails and the sort of candidate that's best for it usually make their decisions based on incorrect stereotypes of what a good applicant is. They then erroneously match interviewees with their incorrect stereotypes. You should clarify what sorts of traits you're looking for, and why, before starting the interview.

One classic study involved 30 professional interviewers.⁵⁰ Half got just this brief job description: “the eight applicants here represented by their application blanks are applying for the position of secretary.” The other interviewers got much more explicit job information, including bilingual ability, for instance.

More job knowledge translated into better interviews. The 15 interviewers with more job information generally all agreed about each candidate's potential; those without it did not. The latter also didn't discriminate as well among applicants—they tended to give them all high ratings. (What screeners actually look for is another matter. A researcher spoke with 120 hiring decision makers. She found that most of them were actually looking for “personal chemistry,” in terms of having things like backgrounds and hobbies that matched their own.)⁵¹

Candidate-Order (Contrast) Error and Pressure to Hire

Candidate-order (or contrast) error means that the order in which you see applicants affects how you rate them. In one study, managers had to evaluate a sample candidate who was “just average” after first evaluating several “unfavorable” candidates. They scored the average candidate more favorably than they might otherwise because, in contrast to the unfavorable candidates, the average one looked better than he actually was. This contrast effect can be huge: In some early studies, evaluators based only a small part of the applicant's rating on his or her actual potential.⁵²

Pressure to hire accentuates this problem. Researchers told one group of managers to assume they were behind in their recruiting quota. They told a second group they were ahead. Those “behind” rated the same recruits more highly.⁵³

Nonverbal Behavior and Impression Management

The applicant's nonverbal behavior (smiling, avoiding your gaze, and so on) can affect his or her rating. In one study, 52 human resource specialists watched videotaped job interviews in which *the applicants' verbal content was identical*, but their nonverbal behavior differed markedly. Researchers told applicants in one group to exhibit minimal eye contact, a low energy level, and low voice

candidate-order (or contrast) error

An error of judgment on the part of the interviewer due to interviewing one or more very good or very bad candidates just before the interview in question.

modulation. Those in a second group demonstrated the opposite behavior. Twenty-three of the 26 personnel specialists who saw the high-eye-contact, high-energy candidate would have invited him or her for a second interview. None who saw the low-eye-contact, low-energy candidate would have recommended a second interview.⁵⁴ So, it pays interviewees to “look alive.”

Nonverbal behaviors are probably so important because interviewers infer your personality from how you behave in the interview. In one study, 99 graduating college seniors completed questionnaires that included measures of personality, among other things. The students then reported their success in generating follow-up interviews and job offers. The interviewee’s personality, particularly his or her level of extroversion, had a pronounced influence on whether he or she received follow-up interviews and job offers.⁵⁵ In turn, extroverted applicants seem particularly prone to self-promotion, and self-promotion is strongly related to the interviewer’s perceptions of candidate–job fit.⁵⁶ Even structuring the interview doesn’t cancel out such effects;⁵⁷ as one study concludes, “No matter how much an interview is structured, nonverbal cues cause interviewers to make attributions about candidates.”⁵⁸

IMPRESSION MANAGEMENT Clever candidates capitalize on that fact. One study found that some used ingratiation to persuade interviewers to like them. For instance, the candidates praised the interviewers or appeared to agree with their opinions, thus signaling they shared similar beliefs. Sensing that a perceived similarity in attitudes may influence how the interviewer rates them, some interviewees try to emphasize (or fabricate) such similarities.⁵⁹ Others make self-promoting comments about their accomplishments.⁶⁰ Self-promotion means promoting one’s own skills and abilities to create the impression of competence.⁶¹ Psychologists call using techniques like ingratiation and self-promotion “impression management.” Most interviewers aren’t likely to know they’re being misled.⁶² Self-promotion can be an effective tactic, but faking or lying generally backfires.⁶³

Effect of Personal Characteristics: Attractiveness, Gender, Race

Unfortunately, physical attributes also distort assessments.⁶⁴ For example, people usually ascribe more favorable traits and more successful life outcomes to attractive people.⁶⁵ Similarly, race can play a role, depending on how you conduct the interview. In one study, the white members of a racially balanced interview panel rated white candidates higher, while the black interviewers rated black candidates higher. But in all cases, *structured* interviews produced less of a difference between minority and white interviewees than did unstructured ones.⁶⁶ One study concludes, “. . . structured interviews can minimize or eliminate potential bias with respect to demographic similarity between applicants and interviewers.”⁶⁷



Diversity Counts: Applicant Disability and the Employment Interview

In general, candidates evidencing various attributes and disabilities (such as child-care demands, HIV-positive status, or being wheelchair-bound) have less chance of obtaining a positive decision, even when they perform well in a structured interview.⁶⁸ In India also, there has been reported instances of discrimination during selection on the basis of religion, caste etc.⁶⁹ When the report created public outcry, firm soon amended the error. In one study, the researchers manipulated the candidates’ appearance, for instance “by placing

scar-like marks on the cheeks of some of the applicants for some interviews, but not for others.” Results revealed that managers who interviewed a facially stigmatized applicant (versus a nonstigmatized applicant) “rated the applicant lower [and] recalled less information about the interview” (in part, apparently, because staring at the “scars” distracted the interviewers).⁷⁰ One study found interviewers to be more lenient toward those with disabilities, however.⁷¹

Another study surveyed 40 disabled people from various occupations. The disabled people felt that interviewers tend to avoid directly addressing the disability, and therefore make their decisions without all the facts.⁷²

What the disabled people prefer is a discussion that lets the employer address his or her concerns and reach a knowledgeable conclusion. Among the questions they said they would like interviewers to ask were these: Is there any kind of setting or special equipment that will facilitate the interview process for you? Is there any specific technology that you currently use or have used that assists the way you work? What other kind of support did you have in previous jobs? Is there anything that would benefit you? Discuss a barrier or obstacle, if any, that you have encountered in any of your previous jobs. How was that addressed? And, do you anticipate any transportation or scheduling issues with the position’s work schedule? ■

■ IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Selection Practices Abroad⁷³

In choosing selection criteria abroad, the manager walks a thin line between using the parent company’s selection process and adapting it to local cultural differences. One study focused on Bangladesh.⁷⁴ Traditional selection practices there are different from the United States. For example, “age is considered synonymous to wisdom.” Therefore, job advertisements for mid- and senior-level positions often set a *minimum* age as a selection criteria. But managers of multinational subsidiaries there are slowly implementing their corporate headquarters’ prescribed HRM practices. As a result, the multinationals are influencing local recruitment and selection practices. That said, the manager should still factor in a country’s unique cultural needs before holding an interview there.

Interviewer Behavior

Finally, the list of ways in which *interviewers* themselves wreck interviews is boundless. For example, some interviewers inadvertently telegraph the expected answers, as in: “This job involves a lot of stress. You can handle that, can’t you?” Even subtle cues (like a smile or nod) can telegraph the desired answer.⁷⁵ Some interviewers talk so much that applicants can’t answer questions. At the other extreme, some interviewers let the applicant dominate the interview. When interviewers have favorable preinterview impressions of the applicant, they tend to act more positively toward that person (smiling more, for instance).⁷⁶ Other interviewers play interrogator, gleefully pouncing on inconsistencies. Some interviewers play amateur psychologist, unprofessionally probing for hidden meanings in what the applicant says. Others ask discriminatory questions.⁷⁷

In summary, interviewing errors to avoid include:

- First impressions (snap judgments)
- Not clarifying what the job involves and requires
- Candidate-order error and pressure to hire

- Nonverbal behavior and impression management
- The effects of interviewees' personal characteristics
- The interviewer's inadvertent behaviors

We'll address what *interviewees* can do to apply these findings and to excel in the interview in Appendix 2 to this chapter.

How to Design and Conduct an Effective Interview

LEARNING OBJECTIVE 7-3

Define a structured situational interview and explain how to conduct effective selection interviews.

structured situational interview

A series of job-relevant questions with predetermined answers that interviewers ask of all applicants for the job.

There is little doubt that the **structured situational interview**—a series of job-relevant questions with predetermined answers that interviewers ask of all applicants for the job—produces superior results.⁷⁸ The basic idea is to (1) write situational (what would you do), behavioral (what did you do), or job knowledge questions, *and* (2) have job experts (like those supervising the job) write several answers for each of these questions, rating the answers from good to poor. (A knowledge question for a social media marketing job would be: “How would you measure the success of your social campaigns?” A situational question would be, “There’s a crisis on one of our social media channels. How do you handle it?” A behavioral question is, “Tell me about a successful social campaign you’ve run.”)⁷⁹ The people (usually a panel of two to three) who interview the applicants then use rating sheets anchored with examples of good or bad answers to rate interviewees’ answers.

Designing a Structured Situational Interview

The procedure is as follows.⁸⁰

- Step 1. Analyze the job.** Write a job description including: a list of job duties; required knowledge, skills, and abilities; and other worker qualifications.
- Step 2. Rate the job’s main duties.** Rate each job duty, say from 1 to 5, based on how important it is to the job.
- Step 3. Create interview questions.** Create situational, behavioral, and job knowledge interview questions for each job duty, with more questions for the important duties. The people who create the questions usually write them as critical incidents. For example, to probe for conscientiousness, the interviewer might ask this situational question:

Your spouse and two teenage children are sick with seasonal cold. Your house help is away, and there are no relatives or friends available to look in on them. Your shift starts in 3 hours. What would you do?
- Step 4. Create benchmark answers.** Next, *for each question*, develop ideal (benchmark) answers for good (a 5 rating), marginal (a 3 rating), and poor (a 1 rating) answers. The structured interview guide (pages 259–262) presents an example. Three benchmark answers (from low to high) for the example question in step 3 might be, “I’d stay home—my spouse and family come first” (1); “I’d phone my supervisor and explain my situation” (3); and “Because they only have colds, I’d come to work” (5).

Step 5. Appoint the interview panel and conduct interviews. Employers generally conduct structured situational interviews using a panel, rather than one-on-one. Panels usually consist of two or three members, preferably those who wrote the questions and answers. They may also include the job's supervisor and/or incumbent, and an HR representative. The same panel interviews all candidates for the job.⁸¹

The panel members review the job description, questions, and benchmark answers before the interview. One panel member introduces the applicant, and asks all questions of all applicants in this and succeeding candidates' interviews (to ensure consistency). However, all panel members record and rate the applicant's answers on the rating sheet (as on pages 260–261), by indicating where the candidate's answer to each question falls relative to the benchmark poor, marginal, or good answers. At the end of the interview, someone answers any questions the applicant has.⁸²

Web-based programs help interviewers design and organize behaviorally based selection interviews. For example, SelectPro (www.selectpro.net) enables interviewers to create behavior-based selection interviews, custom interview guides, and automated online interviews. The following summarizes how to conduct an effective interview.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

In Summary: How to Conduct an Effective Interview

You may not have the time or inclination to create a structured situational interview. However, there is still much you can do to make your interviews systematic.

Step 1: First, know the job. Don't start the interview unless you understand the job's duties and what human skills you're looking for. Study the job description.

Step 2: Structure the interview. Any structuring is better than none. If pressed for time, you can still do several things to ask more consistent and job-relevant questions, without developing a full-blown structured interview.⁸³ For example:⁸⁴

- Base questions on *actual job duties*. This will minimize irrelevant questions.
- Use *job knowledge, situational, or behavioral questions*. Questions that simply ask for opinions and attitudes, goals and aspirations, and self-evaluations allow candidates to present themselves in an overly favorable manner or avoid revealing weaknesses.⁸⁵ Figure 7-2 illustrates structured questions.
- Use *the same questions* with all candidates. This improves reliability. It also reduces bias by giving all candidates the same opportunity.
- For each question, if possible, *have several ideal answers* and a score for each. Then rate each candidate's answers against this scale.
- If possible, use an *interview form*. Interviews based on structured guides like the ones in Figure 7-1 (page 236) or Figure 7A-1, the

“structured interview guide” on pages 258–260, usually result in better interviews.⁸⁶ At least list your questions before the interview.

- Step 3:** Get organized. Hold the interview in a private place to minimize interruptions. Prior to the interview, review the candidate’s application and résumé. Note any areas that are vague or that may indicate strengths or weaknesses.
- Step 4:** Establish rapport. The main reason for the interview is to find out about the applicant. Start by putting the person at ease. Greet the candidate, and start the interview by asking a noncontroversial question, perhaps about the weather that day.
- Step 5:** Ask questions. Try to follow the situational, behavioral, and job knowledge questions you wrote out ahead of time. (That notwithstanding, glassdoor.com says that “What are your strengths” is still the top [of 50] job interview questions asked.)⁸⁷ Figure 7-3 contains the list of 50 questions glassdoor.com found were most popular (such as “Why do you want to leave your current company?”). And remember that many states and municipalities now ban asking about job applicant pay history.⁸⁸ Also, in asking your questions:

Don’t telegraph the desired answer.

Don’t interrogate the applicant as if the person is on trial.

Don’t monopolize the interview, nor let the applicant do so.

Do ask open-ended questions.

Do encourage the applicant to express thoughts fully.

Do draw out the applicant’s opinions and feelings by repeating the person’s last comment as a question (e.g., “You didn’t like your last job?”).

Do ask for examples.⁸⁹

FIGURE 7-2 Examples of Questions That Provide Interview Structure

Job Knowledge Questions

1. What steps would you follow in changing the fan belt on a Marti Alto?
2. What factors would you consider in choosing a computer to use for work?

Experience Questions

3. What experience have you had actually repairing automobile engines?
4. What experience have you had creating marketing programs for consumer products?

Behavioral (Past Behavior) Questions

5. Tell me about a time when you had to deal with a particularly demanding or hint person. What was the situation, and how did you handle it?
6. Tell me about a time when you were under a great deal of stress. What was the situation, and how did you handle it?

Situational (What Would You Do) Questions

7. Suppose your boss insisted that a presentation had to be finished by tonight, but your subordinate said she has to get home early to attend an online class, so she is unable to help you. What would you do?
8. The CEO just told you that he’s planning on firing your boss, with whom you are very close, and replacing him with you. What would you do?

Do ask, “If I were to arrange for an interview with your boss, what would he or she say are your strengths, weaker points, and overall performance?”⁹⁰

- Step 6:** Take brief, unobtrusive notes during the interview. This helps avoid making a snap decision early in the interview, and may help jog your memory once the interview is over. Jot down the key points of what the interviewee says.⁹¹
- Step 7:** Close the interview. Leave time to answer any questions the candidate may have and, if appropriate, to advocate your firm to the candidate.

Go into the interview with an accurate picture of the traits of an ideal candidate, know what you’re going to ask, and be prepared to keep an open mind about the candidate.



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Try to end the interview on a positive note. Tell the applicant whether there’s any interest and, if so, what the next step will be. It will be professional if candidates are informed about rejection. Make rejections diplomatically—“Although your background is impressive, there are other candidates whose experience is closer to our requirements.” Remember, as one recruiter says, “An interview experience should leave a lasting, positive impression of the company, whether the candidate receives and accepts an offer or not.”⁹² If the applicant is still under consideration but you can’t reach a decision now, say so.

- Step 8:** Review the interview. Once the candidate leaves, review your interview notes, score the interview answers (if you used a guide), and make a decision.

In rejecting a candidate, one perennial question is, should you provide an explanation or not? In one study, rejected candidates who received an explanation felt that the rejection process was fairer. Unfortunately, doing so may not be practical. Templates and suggested format for rejections letters are available from popular websites and HR Softwares.⁹³ ■

Competency Profiles and Employee Interviews

We've seen that many companies use competency models or profiles for recruiting, selecting, training, appraising, and compensating employees. Employers can use such a profile for formulating job-related situational, behavioral, and knowledge interview questions. Table 7-1 summarizes this, for chemical engineer candidates, with sample interview questions.

LEARNING OBJECTIVE 7-4

Give examples of how to use employee selection to improve employee engagement.

Employee Engagement Guide for Managers

Building Engagement: A Total Selection Program

Many employers create a *total selection program* aimed at selecting candidates whose totality of attributes best fits the employer's total requirements. The program Toyota Motor uses to select employees for auto assembly team jobs illustrates this.

Toyota looks for several things. It wants employees with good interpersonal skills, due to the job's emphasis on teamwork. Toyota's emphasis on *kaizen*—on having the workers improve job processes through worker commitment to top quality—helps explain its emphasis on reasoning and problem-solving skills and on hiring intelligent, educated, and engaged workers.⁹⁴ Quality is a Toyota core value, so Toyota wants a history of quality commitment in those it hires. Toyota holds group interviews. By asking candidates about what they are proudest of, Toyota gets a better insight into the person's values regarding quality and doing things right. Toyota also wants employees with an eagerness to learn, and who are willing to try things Toyota's way or the team's way. Toyota's production system relies on consensus decision making, job rotation, and flexible career paths, which in turn require open-minded, flexible team players, not dogmatists.

TABLE 7-1 Asking Competency Profile-Oriented Interview Questions

Profile Competency	Example of Competency	Sample Interview Question
Skill	Able to use computer drafting software or accounting software	Tell me about a time you used CAD Pro computerized design software or in Tally Software. What are the features you specifically like?
Knowledge	How extreme heat affects hydrochloric acid (HCl) or what are the different slabs under GST?	Suppose you have an application where HCl is heated to 400 degrees Fahrenheit at 2 atmospheres of pressure; what happens to the HCl?
Trait	Willing to travel abroad at least 4 months per year visiting facilities	Suppose you had a family meeting to attend next week and we informed you that you had to leave for a job abroad immediately. How would you handle that?
Experience	Designed pollution filter for acid-cleaning facility	Tell me about a time when you designed a pollution filter for an acid-cleaning facility. How did it work? What particular problems did you encounter?

The Toyota Way

Toyota's hiring process aims to identify such assembler candidates. The process takes about 20 hours and six phases over several days;⁹⁵

1. What are your strengths?
2. What are your weaknesses?
3. Why are you interested in working for *[insert company name here]*?
4. Where do you see yourself in five years? Ten years?
5. Why do you want to leave your current company?
6. Why was there a gap in your employment between *[insert date]* and *[insert date]*?
7. What can you offer us that someone else can not?
8. What are three things your former manager would like you to improve on?
9. Are you willing to relocate?
10. Are you willing to travel?
11. Tell me about an accomplishment you are most proud of.
12. Tell me about a time you made a mistake.
13. What is your dream job?
14. How did you hear about this position?
15. What would you look to accomplish in the first 30 days/60 days/90 days on the job?
16. Discuss your résumé.
17. Discuss your educational background.
18. Describe yourself.
19. Tell me how you handled a difficult situation.
20. Why should we hire you?
21. Why are you looking for a new job?
22. Would you work holidays/weekends?
23. How would you deal with an angry or irate customer?
24. What are your salary expectations? (*Hint: If you're not sure what's a fair salary range and compensation package, research the job title and/or company on sites like Paycheck.in or Glassdoor.*)
25. Give a time when you went above and beyond the requirements for a project.
26. Who are our competitors?
27. What was your biggest failure?
28. What motivates you?
29. What's your availability?
30. Who's your mentor?
31. Tell me about a time when you disagreed with your boss.
32. How do you handle pressure?
33. What is the name of our CEO/Board Chairperson?
34. What are your career goals?
35. What gets you up in the morning?
36. What would your direct reports say about you?
37. What were your bosses' strengths/weaknesses?
38. If I called your boss right now and asked him/her what is an area that you could improve on, what would he/she say?
39. Are you a leader or a follower?
40. What was the last book you've read for fun?
41. What are your hobbies?
42. What is your favorite Web site for self learning?
43. What makes you uncomfortable?
44. What are some of your leadership experiences?
45. How would you fire someone?
46. What do you like the most and least about working in this industry?
47. Would you work 40+ hours a week?
48. What questions haven't I asked you?
49. What questions do you have for me?

FIGURE 7-3 Suggested Supplementary Questions for Interviewing Applicants

Source: www.glassdoor.com/blog/common-interview-questions and improvements by authors.

- Step 1:** an in-depth online application (20–30 minutes)
- Step 2:** a 2- to 5-hour computer-based assessment
- Step 3:** a 6- to 8-hour work simulation assessment
- Step 4:** a face-to-face interview
- Step 5:** a background check, drug screen, and medical check
- Step 6:** job offer

For example, in step 1, applicants complete applications summarizing their experience and skills, and often view a video describing Toyota's work environment and selection system. This provides a realistic preview of the work and of the hiring process's extensiveness. Many applicants drop out here.

Step 2 assesses the applicant's technical knowledge and potential. Here applicants take tests that help identify problem-solving skills, learning potential, and occupational preferences. Skilled trade applicants (experienced mechanics, for instance) also take tool and die or general maintenance tests. Vendors offer practice Toyota tests.⁹⁶

In step 3, applicants engage in simulated realistic production activities in Toyota's assessment center, under the observation of Toyota screening experts. The production (work sample) test assesses how well each candidate does on an actual assembler task. Also here, group discussion exercises help show how each applicant interacts with others in their group and solves problems.

In one simulation, candidates play the roles of the management and the workers of a firm making electrical circuits. During one scenario, the team must decide which circuit should be manufactured and how to effectively assign people, materials, and money to produce them. In another, participants role-play a team responsible for choosing new features for next year's car. Team members first individually rank 12 features based upon market appeal and then suggest one feature not included on the list. They must then come to a consensus on the best rank ordering. As one candidate who went through this process said, "There are three workstations in which you will be required to spend 2 hours at each one. You then have to get in a group and problem-solve a special project with them for another hour or so. I left my house at 5 A.M. and did not return until 6:30 P.M.; it was a very long day."⁹⁷

The time and effort applicants must invest in their Toyota visits are no accident. Toyota seeks engaged, flexible, quality-oriented team players, and those who lack these traits tend not to make it through the screening process. The rigorosity of the process tends to screen out the less engaged.

In summary, Toyota uses a total hiring process to identify and select engaged employees. Four common themes are apparent from Toyota's process. First, *value-based hiring* means it clarifies its own values before it embarks on an employee selection program. Whether based on excellence, kaizen/continuous improvement, integrity, or some other, value-based hiring begins with clarifying what your firm's values are and what you're looking for in employees.

Second, high-engagement firms such as Toyota commit the time and effort for an *exhaustive screening process*. Eight to ten hours of interviewing even for entry-level employees is not unusual, and firms like this will often spend 20 hours or more with someone before deciding to hire. Many are rejected.

Third, the screening process doesn't just identify knowledge and technical skills. Instead, it seeks candidates whose *values and skills match* the needs of the firm. Teamwork, kaizen, problem solving, engagement, and flexibility are essential values at Toyota, so problem-solving skills, interpersonal skills, and engagement with the firm's commitment to quality are crucial human requirements.

Fourth, *self-selection* is important. In some firms this just means realistic previews. At others, practices such as long probationary periods in entry-level jobs help screen out those who don't fit. At Toyota, the long screening process itself demands a sacrifice in terms of time and effort.



TRENDS SHAPING HR: SCIENCE IN TALENT MANAGEMENT

As another example, Google takes a scientific, evidence-based approach to its selection (and other HR) practices.

In its hiring process, Google starts (as explained in Chapter 4) with strong candidates. For example, its internal recruiting group proactively identifies candidates, rather than using job boards to attract unscreened résumés.

The main elements in Google's selection process include work samples, testing, and interviewing. Virtually all of Google's technical hires take work sample tests, such as actually writing algorithms. Work samples are combined with testing of cognitive ability (similar to IQ tests), and of conscientiousness. Early in its evolution Google put candidates through a dozen or more interviews. However, Google's analysis showed that after the first four interviews the amount of useful information it got was small. It therefore now generally makes hiring decisions after the fourth interview.

The interviews emphasize situational and behavioral questions. For specific questions, Google provides its interviewers with its QDroid system; this e-mails each interviewer specific questions to ask the candidate for the specific job. Google interviewers were once known for trick questions, but the emphasis now is on using validated questions (from the QDroid system). The questions aim to assess the candidate's cognitive ability, leadership (particularly willingness to lead projects), "Googleyness" (values such as fun-loving and conscientious), and role-related knowledge (such as in computer science).

Who actually does the interviewing? Here Google believes in the "wisdom of crowds": the interviewing "crowd" includes not just the prospective boss but also prospective subordinates and representatives of other unrelated departments. Google then averages all the interviewers' interview ratings on a candidate to get a score. Finally, the hiring committee reviews the file, as does a Google senior manager, and then the CEO, before an offer is made.⁹⁸

Google is continually analyzing and improving its selection process. For example, it periodically runs experiments that identify common keywords so as to analyze résumés of successful Google employees in particular jobs. Google then looks for these keywords in applicants who it *rejected* over the past year, and re-evaluates these rejected applicants for these keywords, hiring many of these former "rejects" as a result. Similarly, interviewers get printouts showing how effective they've been as interviewers in terms of candidates hired or not hired. The process is thus analytical, evidence-based, and scientific. ■



LEARNING OBJECTIVE 7-5

List the main points in developing and extending the actual job offer.

Developing and Extending the Job Offer

After all the interviews, background checks, and tests, the employer decides to whom to make an offer, using one or more approaches. The *judgmental* approach subjectively weighs all the evidence about the candidate. The *statistical* approach quantifies all the evidence and perhaps uses a formula to predict job success. The *hybrid* approach combines statistical results with judgment. Statistical and hybrid are more defensible; judgmental is better than nothing.

The employer will base the details of the actual offer on, for instance, the candidate's apparent attractiveness as a prospective employee, the level of the position, and pay rates for similar positions. Next the employer extends an actual job offer to the candidate verbally. Many Indian firms directly send the job offer letter to the candidates. In case of large scale selection like UPSC, the list of selected candidates are announced before the letters are sent. In some cases, a waitlist of eligible candidates is also announced. Here, the employer's point person (who might be the person to whom the new employee will report, or the human resource director, for instance) discusses the offer's main parameters. These include, for instance, pay rates, benefits, and actual job duties. There may be some negotiations. Then, once agreement is reached, the employer will extend a written job offer to the candidate.

There are several issues to consider with the written offer. Perhaps most important, understand the difference between a job offer letter and a contract. In a job offer letter, the employer lists the offer's basic information. This typically starts with a welcome sentence. It then includes job-specific information (such as details on salary and pay), benefits information, paid leave information, and terms of employment (including, for instance, successful completion of physical exams). There should be a strong statement that the employment relationship is terminated by giving notice (time is specified) or "at will." or on retirement. There is then a closing statement. This again welcomes the employee, mentions who the employer's point person is if any questions arise, and instructs the candidate to sign the letter of offer if it is acceptable. It is prudent to have an attorney review the offer before extending it.⁹⁹

For many positions (such as freelancers or CEO) a contract is in order. Unlike a letter of offer (which should specify how employment can be terminated from both sides.), an employment contract may have a duration (such as 3 years). Therefore, the contract will also describe grounds for termination or resignation, and severance provisions. The contract will almost always also include terms regarding confidentiality, nondisclosure requirements, and covenants not to compete (some *job offer letters* for positions such as sales manager or an R&D engineer may include such provisions as well).

Depending upon the position, the employment contract (and, occasionally, the offer letter) may include a relocation provision. This lays out what the employer is willing to pay the new employee to relocate, for instance, in terms of moving expenses. State law generally governs enforcement of individual employment contracts. Letter of offer and employment contract samples are available online.¹⁰⁰

Chapter Review

Chapter Section Summaries

- 7-1. A selection interview is a selection procedure designed to predict future job performance based on applicants' oral responses to oral inquiries; we discussed several **basic types of interviews**. There are structured versus unstructured interviews. We also distinguished between interviews based on the types of questions and on how you administer the interview.
- 7-2. One reason selection interviews are often less useful than they should be is that managers make predictable **errors that undermine an interview's usefulness**. They jump to conclusions or make snap judgments based on preliminary information, they don't clarify what the job really requires, they succumb to candidate-order error and pressure to hire, and they let a variety of nonverbal behaviors and personal characteristics undermine the validity of the interview.
- 7-3. The manager should know how to **design and conduct an effective interview**. The structured situational interview is a series of job-related questions with predetermined answers that interviewers ask of all applicants for the job. Steps in creating a structured situational interview include analyzing the job, rating the job's main duties, creating interview questions, creating benchmark answers, and appointing the interview panel and conducting interviews.
- 7-4. **High-engagement firms** like Toyota use total hiring programs to select employees. Activities include clarifying the firm's values, committing the time and effort, matching the applicant's values with the firm's, having realistic previews, and encouraging self-selection.
- 7-5. Finally the employer turns to **developing and extending the job offer**. Distinguish between a job offer letter and a contract. The former lists the offer's basic information, including details on salary and pay, benefits information, paid leave information, and terms of employment. There should be a strong statement specifying how employment relationship is terminated. In contrast to a letter of offer, it is not unusual for an employment contract to have a duration (such as 3 years).

Discussion Questions

- 7-1. There are several ways to conduct a selection interview. Explain and illustrate the basic ways in which you can classify selection interviews.
- 7-2. Briefly describe each of the following types of interviews: unstructured panel interviews, structured sequential interviews, job-related structured interviews.
- 7-3. For what sorts of jobs do you think unstructured interviews might be most appropriate? Why?
- 7-4. How would you explain the fact that structured interviews, regardless of content, are generally more valid than unstructured interviews for predicting job performance?
- 7-5. Briefly discuss what an interviewer can do to improve his or her interviewing performance.
- 7-6. What items should a letter of offer definitely contain?
- 7-7. What parallels do you see between the Toyota and Google total selection processes? What differences?

Individual and Group Activities

- 7-8. Prepare and give a short presentation titled “How to Be Effective as a Selection Interviewer.”
- 7-9. Use the Internet to find employers who now do preliminary selection interviews via the Web. Do you think these interviews are useful? Why? How would you improve them?
- 7-10. In groups, discuss and compile examples of “the worst interview I ever had.” What was it about these interviews that made them so bad? If time permits, discuss as a class.
- 7-11. In groups, prepare an interview (including a sequence of at least 20 questions) you’ll use to interview candidates for the job of teaching a course in human resource management. Each group should present its interview questions in class.
- 7-12. Several years ago, Lockheed Martin Corp. sued the Boeing Corp., accusing it of using Lockheed’s trade secrets to help win a multibillion-dollar government contract. Among other things, Lockheed claimed that Boeing had obtained those trade secrets from a former Lockheed employee who switched to Boeing.¹⁰¹ But of the methods companies use to commit corporate espionage, one writer says that hiring away the competitor’s employees is just the most obvious method companies use. One writer says, “One of the more unusual scams—sometimes referred to as ‘help wanted’—uses a person posing as a corporate headhunter who approaches an employee of the target company with a potentially lucrative

job offer. During the interview, the employee is quizzed about his responsibilities, accomplishments, and current projects. The goal is to extract information without the employee realizing there is no job.”¹⁰²

Assume you own a small high-tech company. What would you do (in terms of employee training, or a letter from you, for instance) to try to minimize the chance that one of your employees will fall into that kind of a trap? Also, compile a list of 10 questions that you think such a corporate spy might ask one of your employees.

- 7-13. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team’s questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.



Experiential Exercise

The Most Important Person You’ll Ever Hire

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Purpose: The purpose of this exercise is to give you practice using some of the interview techniques you learned from this chapter.

Required Understanding: You should be familiar with the information presented in this chapter, and read this: For parents, children are precious. It’s therefore interesting that parents who hire “nannies” to take care of their children usually do little more than

ask several interview questions and conduct what is often, at best, a perfunctory reference check. Given the often questionable validity of interviews, and the (often) relative inexperience of the father or mother doing the interviewing, it’s not surprising that many of these arrangements end in disappointment. You know from this chapter that it is difficult to conduct a valid interview unless you know exactly what you’re looking for and, preferably, structure the interview. Most parents simply aren’t trained to do this.

How to Set Up the Exercise/Instructions: Set up groups of five or six students. Two students will be the interviewees, while the other students in the group will serve as panel interviewers. The interviewees will develop an interviewer assessment form, and the panel interviewers will develop a structured situational interview for a “nanny.”

- 7-14. Instructions for the interviewees: The interviewees should leave the room for about 20 minutes. While out of the room, the interviewees should develop an “interviewer assessment form” based on the information presented in this chapter regarding factors that can undermine the usefulness of an interview. During the panel interview, the interviewees should assess the interviewers using the interviewer assessment form. After the panel interviewers have conducted the interview, the interviewees should leave the room to discuss their notes. Did the interviewers exhibit any of the

factors that can undermine the usefulness of an interview? If so, which ones? What suggestions would you (the interviewees) make to the interviewers on how to improve the usefulness of the interview?

- 7-15. Instructions for the interviewers: While the interviewees are out of the room, the panel interviewers will have 20 minutes to develop a short structured situational interview form for a “nanny.” The panel interview team will interview two candidates for the position. During the panel interview, each interviewer should be taking notes on a copy of the structured situational interview form. After the panel interview, the panel interviewers should discuss their notes. What were your first impressions of each interviewee? Were your impressions similar? Which candidate would you all select for the position, and why?

Application Case

The Out-of-Control Interview

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Maria Fernandez is a bright, popular, and well-informed mechanical engineer who graduated with an engineering degree from State University in June 2018. During the spring preceding her graduation, she went out on many job interviews, most of which she thought were conducted courteously and were reasonably useful in giving both her and the prospective employer a good impression of where each of them stood on matters of importance to both of them. It was, therefore, with great anticipation that she looked forward to an interview with the one firm in which she most wanted to work: Apex Environmental. She had always had a strong interest in the environment and believed that the best use of her training and skills lay in working for a firm like Apex, where she thought she could have a successful career while making the world a better place.

The interview, however, was a disaster. Maria walked into a room where five men—the president of the company, two vice presidents, the marketing director, and another engineer—began throwing questions at her that she felt were aimed primarily at tripping her up rather than finding out what she could offer through her engineering skills. The questions ranged from being unnecessarily discourteous (“Why would you take a job as a waitress in college if you’re such an intelligent person?”) to being irrelevant and sexist (“Are you planning on starting a family anytime soon?”). Then, after the interview, she met with two of the gentlemen individually (including the president), and the discussions focused on her technical expertise. She thought that these later discussions went fairly

well. However, given the apparent aimlessness and even mean-spiritedness of the panel interview, she was astonished when several days later the firm made her a job offer.

The offer forced her to consider several matters. From her point of view, the job itself was perfect. She liked what she would be doing, the industry, and the firm’s location. And in fact, the president had been quite courteous in subsequent discussions. She was left wondering whether the panel interview had been intentionally tense to see how she’d stand up under pressure, and, if so, why they would do such a thing.

Questions

- 7-16. How would you explain the nature of the panel interview Maria had to endure? Specifically, do you think it reflected a well-thought-out interviewing strategy on the part of the firm or carelessness on the part of the firm’s management? If it were carelessness, what would you do to improve the interview process at Apex Environmental?
- 7-17. Would you take the job offer if you were Maria? If you’re not sure, what additional information would help you make your decision?
- 7-18. The job of applications engineer for which Maria was applying requires (a) excellent technical skills with respect to mechanical engineering, (b) a commitment to working in the area of pollution control, (c) the ability to deal well and confidently with customers who have engineering problems, (d) a willingness to travel worldwide, and (e) a very intelligent and well-balanced personality. List 10 questions you would ask when interviewing applicants for the job.

Continuing Case

Carter Cleaning Company

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The Better Interview

Like virtually all the other HR-related activities at Carter Cleaning Centers, the company currently has no organized approach to interviewing job candidates. Store managers, who do almost all the hiring, have a few of their own favorite questions that they ask. But in the absence of any guidance from management, they all admit their interview performance leaves something to be desired. Similarly, Jack Carter himself is admittedly most comfortable dealing with what he calls the “nuts and bolts” machinery aspect of his business and has never felt particularly comfortable having to interview management or other job applicants. Jennifer is sure that this lack of formal interviewing practices, procedures, and training account for some of the employee turnover and theft

problems. Therefore, she wants to do something to improve her company's performance in this important area.

Questions

- 7-19. In general, what can Jennifer do to improve her employee interviewing practices? Should she develop interview forms that list questions for management and nonmanagement jobs? If so, how should these look, and what questions should be included? Should she initiate a computer-based interview approach? If so, why and how?
- 7-20. Should she implement an interview training program for her managers, and if so, specifically what should be the content of such a training program? In other words, if she did decide to start training her management people to be better interviewers, what should she tell them, and how should she tell it to them?

Translating Strategy into HR Policies and Practices Case[§]

Improving Performance at the Hotel Paris

The New Interviewing Program

The Hotel Paris's competitive strategy is “To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability.” HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

As an experienced HR professional, Lisa knew that the company's new testing program would go only so far. She knew that, at best, employment tests accounted for perhaps 30% of employee performance. It was essential that she and her team design a package of interviews that her hotel managers could use to assess—on an interactive and personal basis—candidates for various positions. It was only in that way that the hotel could hire the sorts of employees whose competencies and behaviors would translate into the kinds of outcomes—such as improved guest services—that the hotel required to achieve its strategic goals.

Lisa received budgetary approval to design a new employee interview system. She and her team started by reviewing the job descriptions and job specifications for the positions of front-desk clerk, assistant manager, security guard, valet, door person, and housekeeper. Focusing on developing structured interviews for each position, the team set about devising interview questions. For example,

for the front-desk clerk and assistant manager, they formulated several *behavioral questions*, including, “Tell me about a time when you had to deal with an irate person, and what you did,” and “Tell me about a time when you had to deal with several conflicting demands at once, such as having to study for several final exams at the same time, while working. How did you handle the situation?” They also developed a number of *situational questions*, including “Suppose you have a very pushy incoming guest who insists on being checked in at once, while at the same time you're trying to process the check-out for another guest who must be at the airport in 10 minutes. How would you handle the situation?” For these and other positions, they also developed several *job knowledge* questions. For example, for security guard applicants, one question her team created was, “What are the local legal restrictions, if any, regarding using products like Mace if confronted by an unruly person on the hotel grounds?” The team combined the questions into structured interviews for each job, and turned to testing, fine-tuning, and finally using the new system.

Questions

- 7-21. For the jobs of security guard and valet, develop five additional situational, five behavioral, and five job knowledge questions, with descriptive good/average/poor answers.
- 7-22. Combine, (based on what you read in this Dessler and Varkkey, *Human Resource Management* chapter) your questions into a complete interview that you would give to someone who must interview candidates for these jobs.

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Key Terms

unstructured (or nondirective) interview, 235
structured (or directive) interview, 235
situational interview, 236

behavioral interview, 236
job-related interview, 209
stress interview, 237
unstructured sequential interview, 238

structured sequential interview, 238
panel interview, 238
mass interview, 238

candidate-order (or contrast) error, 242
structured situational interview, 245

Annexure 1

Structured Interview Guide

STEP 1—Create a Structured Interview Guide

Instructions:

First, here in step 1, create a structured interview guide like this one (including a competency definition, a lead question, and benchmark examples and answers, for instance) **for each of the job's required competencies**:

Competency: Interpersonal Skills

Definition:

Shows understanding, courtesy, tact, empathy, concern; develops and maintains relationships; may deal with people who are difficult, hostile, distressed; relates well to people from varied backgrounds and situations; is sensitive to individual differences.

Lead Questions:

Describe a situation in which you had to deal with people who were upset about a problem. What specific actions did you take? What was the outcome or result?

Benchmark Level	Level Definition	Level Examples
5	Establishes and maintains ongoing working relationships with management, other employees, internal or external stakeholders, or customers. Remains courteous when discussing information or eliciting highly sensitive or controversial information from people who are reluctant to give it. Effectively handles situations involving a high degree of tension or discomfort involving people who are demonstrating a high degree of hostility or distress.	Presents controversial findings tactfully to irate organization senior management officials regarding shortcomings of a newly installed computer system, software programs, and associated equipment.
4		Mediates disputes concerning system design/architecture, the nature and capacity of data management systems, system resources allocations, or other equally controversial/sensitive matters.
3	Cooperates and works well with management, other employees, or customers, on short-term assignments. Remains courteous when discussing information or eliciting moderately sensitive or controversial information from people who are hesitant to give it. Effectively handles situations involving a moderate degree of tension or discomfort involving people who are demonstrating a moderate degree of hostility or distress.	Courteously and tactfully delivers effective instruction to frustrated customers. Provides technical advice to customers and the public on various types of IT such as communication or security systems, data management procedures or analysis.
2		Familiarizes new employees with administrative procedures and office systems.
1	Cooperates and works well with management, other employees, or customers during brief interactions. Remains courteous when discussing information or eliciting non-sensitive or non-controversial information from people who are willing to give it. Effectively handles situations involving little or no tension, discomfort, hostility, or distress.	Responds courteously to customers' general inquiries. Greet and assists visitors attending a meeting within own organization.

FIGURE 7A-1 Structured Interview Guide

Source: From Conducting Effective Structured Interviews Resource Guide for Hiring Managers and Supervisors, 2005, United States Department of State Bureau of Human Resources.

STEP 2—INDIVIDUAL EVALUATION FORM**Instructions:**

Next, in step 2, create a form for evaluating each job candidate on each of the job's competencies:

Candidate to be assessed: _____

Date of Interview: _____

Competency: Problem Solving**Definition:**

Identifies problems; determines accuracy and relevance of information; uses sound judgment to generate and evaluate alternatives, and to make the recommendations.

Question:

Describe a situation in which you identified a problem and evaluated the alternatives to make a recommendation or decision. What was the problem and who was affected?

Probes:

How did you generate and evaluate your alternatives? What was the outcome?

Describe specific behaviors observed: (Use back of sheet, if necessary)

1-Low	2	3-Average	4	5-Outstanding
Uses logic to identify alternatives to solve routine problems. Reacts to and solves problems by gathering and applying information from standard materials or sources that provide a limited number of alternatives.		Uses logic to identify alternatives to solve moderately difficult problems. Identifies and solves problems by gathering and applying information from a variety of materials or sources that provide several alternatives.		Uses logic to identify alternatives to solve complex or sensitive problems. Anticipates problems and identifies and evaluates potential sources of information and generates alternatives to solve problems where standards do not exist.

Final Evaluation:	Printed Name:	Signature:
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FIGURE 7A-1 *Continued*

Instructions:

Candidate:

Date:_____

Panel Consensus Evaluation Form				
Instructions: Translate each individual evaluation for each competency onto this form. If all of the individual competency evaluations are within one rating scale point, enter the average of the evaluations in the column labeled Group Evaluation. If more than one point separates any two raters, a consensus discussion must occur with each party justifying his/her evaluation. The lead interviewer or his/her designee should take notes on the consensus discussion in the space provided. Any changes in evaluation should be initialed and a final evaluation entered for each competency.				
Competency	Final Individual Evaluations			Group Evaluation
	(1)	(2)	(3)	
Interpersonal Skills				
Self-Management				
Reasoning				
Decision Making				
Problem Solving				
Oral Communication				
Total Score				
Consensus Discussion Notes: 				
Signature Panel Member 1: _____				
Signature Panel Member 2: _____				
Signature Panel Member 3: _____				

FIGURE 7A-1 Continued

Annexure 2

Interview Guide for Interviewees

Before managers move into positions where they have to interview others, they usually must navigate some interviews themselves. It's therefore useful to apply some of what we discussed in this chapter to navigating one's own interviews.

Beyond trying to determine how you would perform the technical parts of the job, interviewers will try to discover what you are like as a person. In other words, how you get along with other people and your desire to work. They will look here at how you behave. For example, they will note whether you respond concisely, cooperate fully in answering questions, state personal opinions when relevant, and keep to the subject at hand; these are very important elements in influencing the interviewer's decision.

Getting an Extra Edge

There are six things to do to get an extra edge in the interview.¹⁰³

1. **Preparation is essential.** Before the interview, learn all you can about the employer, the job, and the people doing the recruiting. On the Web, using social media, or looking through business periodicals, find out what is happening in the employer's field. Try to unearth the employer's problems. Be ready to explain why you think you would be able to solve such problems, citing some of your *specific accomplishments* to make your case.
2. **Uncover the interviewer's real needs.** Spend as little time as possible briefly answering your interviewer's first questions and as much time as possible getting him or her to describe his or her needs. Determine what the person is expecting to accomplish, and the type of person he or she feels is needed. Use open-ended questions such as, "Could you tell me more about that?"
3. **Relate yourself to the interviewer's needs.** Once you know the type of person your interviewer is looking for and the sorts of problems he or she wants solved, you are in a good position to describe your own accomplishments *in terms of the interviewer's needs*. Start by saying something like, "One of the problem areas you've said is important to you is similar to a

problem I once faced." Then state the problem, describe your solution, and reveal the results.

4. **Think before answering.** Answering a question should be a three-step process: Pause—Think—Speak. *Pause* to make sure you understand what the interviewer is driving at, *think* about how to structure your answer, and then *speak*. In your answer, try to emphasize how hiring you will help the interviewer solve his or her problem.
5. **Remember that appearance and enthusiasm are important.** Appropriate clothing, good grooming, a firm handshake, and energy are important. Maintain eye contact. In addition, speak with enthusiasm, nod agreement, and remember to take a moment to frame your answer (pause, think, speak) so that you sound articulate and fluent. Remember that many interviewers seek "chemistry" in terms of similarity of experiences when they're interviewing.
6. **Make a good first impression.** Remember that in most cases interviewers make up their minds about the applicant early in the interview. A good first impression may turn to bad during the interview, but it's unlikely. Bad first impressions are almost impossible to overcome. Experts suggest paying attention to the following key interviewing considerations:
 - Appropriate clothing
 - Good grooming
 - A firm handshake
 - The appearance of controlled energy
 - Pertinent humor and readiness to smile
 - A genuine interest in the employer's operation and alert attention when the interviewer speaks
 - Pride in past performance
 - An understanding of the employer's needs and a desire to serve them

Tackling the "Standard" Questions

Be vigilant in answering familiar, standard questions such as "tell me about yourself."¹⁰⁴ For example, know that asking "tell me about yourself" helps recruiters size up your poise and communication skills. A good answer to "What are your greatest

strengths?” should focus on the strengths related to the job you’re interviewing for. Good answers to “What are your weaknesses?” include what you’re doing to improve yourself. Interviewees who can’t answer “What can you tell me about our company and industry?” may lack conscientiousness. Answering “What you like most and least about your most recent job?” should touch on liking the same values, activities, and culture that the job at hand involves. And someone who says “no” when asked “Do you have any questions?” may have thought too little about the job.

Should You Be Forthright?

Imagine a job candidate who by experience and education is highly qualified for a job, but who lacks some important trait(s): for example, he or she doesn’t dress stylishly for an interview with an

upscale department store. How forthright should you be if asked why you didn’t dress up more?

Based on a recent study, otherwise top-notch candidates should be forthright.¹⁰⁵ This study found that a strong drive to “self-verify”—to “present oneself accurately so that others understand you as you understand yourself”—may help differentiate you from the other top candidates. The researchers measured self-verification with items such as “I like to be myself rather than trying to act like someone I’m not.”

So, if you like being authentic and presenting yourself accurately to others, do so, as long as for the job at hand you’re an otherwise top-notch candidate. (Doing this backfired for inferior candidates.)

Endnotes

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8

Training and Developing Employees

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 8-1** **Summarize** the purpose and process of employee orientation.
- 8-2** **Give** an example of how to design onboarding to improve employee engagement.
- 8-3** **List and briefly explain** each of the steps in the training process.
- 8-4** **Explain** how to use five training techniques.
- 8-5** **List and briefly discuss** four management development methods.
- 8-6** **List and briefly discuss** the importance of the steps in leading organizational change.
- 8-7** **Explain** why a controlled study may be superior for evaluating the training program's effects.

Mahindra Finance is a non-banking financial company (NBFC), and it serves predominantly rural and semi-urban customers. With an employee strength of over 33,000 spread across India, providing Learning and Development (L&D) to a large group of field employees was a challenge. It was also observed that attrition was also high among them. Classroom-based training was time consuming and costly with limited reach. An internal study also indicated that most employees had access to mobile phones. In order to impart the required training to its staff, Mahindra Finance required coaching modules which were attractive and could be accessed anywhere.¹ Employees at Mahindra Finance are provided with a lot of opportunities for learning and development.



WHERE ARE WE NOW . . .

Chapters 6 and 7 focused on the methods managers use to interview and select employees. Once employees are on board, the employer must train them. The purpose of this chapter is to increase your effectiveness in training employees. The main topics we'll cover include **Orienting and Onboarding New Employees, Designing Onboarding to Improve Employee Engagement, The Training Process, Implementing Training Programs, Management Development Methods, Leading Organizational Change, and Evaluating the Training Effort**. Then, in Chapter 9, we'll turn to appraising employees.



LEARNING OBJECTIVE 8-1

Summarize the purpose and process of employee orientation.

Orienting and Onboarding New Employees

Carefully selecting employees doesn't guarantee they'll perform effectively. Even high-potential employees can't do their jobs if they don't know what to do or how to do it. Making sure your employees do know what to do and how to do it is the purpose of orientation and training. The human resources department usually designs the orientation and training programs, but the supervisor does most of the day-to-day orienting and training. Every manager therefore should know how to orient and train employees. We will start with orientation. Induction and Orientation are two words used interchangeably, though they differ. Induction is the initial process of organizational entry and introduction which is more formal and shorter, while orientation is the longer, overall assimilation process which has an informal component also.² Onboarding is another term used in place of Induction.

The Purposes of Employee Orientation/Onboarding

Employee orientation (or *onboarding*) provides new employees with the basic background information (such as computer passwords and company rules) they need to do their jobs; ideally it should also help them start becoming emotionally attached to and engaged in the firm.³ The organization wants to accomplish four things when orienting new employees:

1. Make the new employee feel welcome and at home and part of the team.
2. Make sure the new employee has the basic information to function effectively, such as e-mail access, personnel policies and benefits, and work behavior expectations.
3. Help the new employee understand the organization in a broad sense (its past, present, culture, and strategies and vision of the future).
4. Start socializing the person into the firm's culture and ways of doing things.⁴ Delhi Metro Rail Corporation Limited (DMRC) organizes an intensive orientation program for new recruits and trainee coach drivers to make them understand the organization's various roles and responsibilities. The program is a mix of theoretical training and practical exposure. During the induction/orientation program, the top leadership of DMRC regularly interacts with trainees to impress upon the unique culture and vision/mission of corporation.⁵

The Orientation Process

Onboarding ideally begins before the person's first day, with a welcome note, orientation schedule, and list of documents (such as tax documents) needed the first day. Some organizations go a step forward, and prepare the individual to be productive at the earliest. This stage is also called advance orientation, pre-boarding or even anticipatory socialization of new employees. On the first day, make sure colleagues know the new employee is starting, and arrange for one or more of them to take the person to lunch. On subsequent days, the new employee should meet colleagues in other departments. After about two weeks, speak with the employee to identify any concerns.⁶

The length of the onboarding program depends on what you cover. Some take several hours. The human resource specialist (or, in smaller firms, the office manager or even the CEO/owner) performs the first part of the orientation by explaining basic matters like working hours and benefits. Then the

employee orientation

A procedure for providing new employees with basic background information and cultural aspects of the firm.

supervisor continues by explaining the department's organization, introducing the person to his or her new colleagues, familiarizing him or her with the workplace, and reducing first-day jitters. Many Indian organizations also arrange meetings with top leaders and star performers as part of the program. At a minimum, the orientation should provide information on matters such as employee benefits, personnel policies, safety measures and regulations, and a facilities tour; making the new employee feel special and proud about working for the company is advisable;⁷ new employees should receive (and sign for) print or Internet-based employee handbooks covering such matters. You'll find a variety of orientation checklists online.

At the other extreme, L'Oréal's onboarding program extends about 2 years. It includes roundtable discussions, meetings with key insiders, on-the-job learning, individual mentoring, and experiences such as site visits.⁸ Indian mass footwear manufacturer, VKC Industries, has designed a six-month orientation program for the newly hired management trainees (MT). The MTs are exposed to the company culture and philosophy, the basics of footwear design and manufacturing, the management processes followed, and regulations. They are introduced to different supply chain partners. Under the mentorship of senior management, trainees work on variety of projects and visit different manufacturing locations and markets during this induction period. The new employee induction at NTPC Ltd, a Maharatna PSU lasts 52 weeks, which is combination of classroom training on theoretical subjects, on the job training, soft skills and basics of management.⁹

Supervisors should be vigilant during the process. Follow up on and encourage new employees to engage in activities (such as taking breaks with colleagues) that will enable them to "learn the ropes." Especially for new employees with disabilities, or who are new to the location, integration and socialization are highly influenced by coworkers' and supervisors' behavior.¹⁰ Many Indian organizations like BPCL and Cochin Shipyard have introduced a buddy scheme, i.e., pairing the newcomer with a colleague who has a few years more experience, to improve the assimilation process.

Those *being* oriented should show they're involved. Two things seem to show managers that the people they're orienting are engaged. First, show you're trying to master and perform the tasks at hand (such as learning about the new job and company). Second, show you're trying to assimilate socially, for instance by interacting with new colleagues.¹¹

Employers should onboard new executives at senior levels who are hired externally too. Generally, Senior Management on-boarding is customized for the individual, depending on the role and level. Making a proper announcement and introduction to peers and other leaders are important for integration. In instances where the new executive moves with family, many Indian organizations support familiarization of family also. In one global survey, "poor grasp of how the organization works" was a problem for 69% of new senior executives. The survey suggests that senior management onboarding should include the firm's operational plans and key business areas, key team members' career histories, key external stakeholders, and briefings on the firm's culture and how it "gets things done."¹² However, there are critiques about the traditional form of orientation, which may aim to force fit the person to organization and equip them with skills to perform. In an experimental study conducted in Wipro where new employee turnover was high in the call center, the new hires who were allowed to express their self identity (they were given

Sweat Shirts with their names printed, and early discussions were around how each individual can contribute) showed better performance and retention, than the group focused on organization (they were given Sweat Shirts with Organization name and early discussions were around the company history and identity). Both groups performed better than the control group, with the traditional onboarding approach focussed only on skills. Researchers concluded that allowing self expression of the individual at the earliest stage, helps in the long term.¹³

THE EMPLOYEE HANDBOOK Employers should assume that their employee handbook's contents are legally binding commitments. Even apparently sensible handbook policies (such as “the company will not retaliate against employees who raise concerns about important issues in the workplace”) can backfire without proper disclaimers. Say that statements of company policies, benefits, and regulations do not constitute the terms and conditions of an employment contract, either expressed or implied. Do not insert statements such as “No employee will be fired without just cause” or statements that imply or state that employees have permanent tenure. In case of industrial workmen, the Standing Orders (framed under the Industrial Employment Standing Orders Act 1946) will regulate the conduct of workers. Chapter 2 discusses more about Standing Orders.

ORIENTATION TECHNOLOGY Employers use technology to support orientation. For example, at the University of Cincinnati, new employees spend about 45 minutes online learning about their new employer's mission, organization, and policies and procedures. ION Geophysical uses an online onboarding portal solution called RedCarpet. It includes a streaming video welcome message, and photos and profiles of new colleagues.¹⁴ With Workday's iPhone app, users can search their company's directory for names, images, and contact information; call or e-mail coworkers directly; and view physical addresses on Google Maps.¹⁵ Some employers place scannable QR codes along the orientation tour's stops, to provide information about each department and its role.¹⁶ Employers use team activities and gamification (awarding points for completing parts of the program, for instance) to energize their onboarding programs.¹⁷ Organizations are also using AI powered tools to enhance the onboarding experience, like using HR Chatbots to help the new employee deal with mundane administrative tasks.

LEARNING OBJECTIVE 8-2

Give an example of how to design onboarding to improve employee engagement.

Employee Engagement Guide for Managers: Onboarding at Toyota

In many firms today, orientation goes well beyond providing basic information about things like work hours.¹⁸ Onboarding at Toyota Motor Manufacturing U.S. illustrates this. While it does cover routine topics such as company benefits, its main aim is to engage Toyota's new employees in the firm's ideology of quality, teamwork, personal development, open communication, and mutual respect.¹⁹ The initial program takes about 4 days:²⁰

Day 1: The first day begins early and includes an overview of the program, a welcome to the company, and a discussion of the firm's

organizational structure and human resource department by the firm's human resources vice president. He or she devotes about an hour and a half to discussing Toyota history and culture, and about 2 hours to employee benefits. Managers then spend several hours discussing Toyota's commitment to quality and teamwork.

- Day 2:** A typical second day focuses first on the importance of mutual respect, teamwork, and open communication at Toyota. The rest of the day covers topics such as safety, environmental affairs, and the Toyota production system.
- Day 3:** Given the importance of working in teams at Toyota, this day begins with 2½ to 3 hours devoted to communication training, such as “making requests and giving feedback.” The rest of the day covers matters such as Toyota's problem-solving methods, quality assurance, hazard communications, and safety.
- Day 4:** Topics today include teamwork training and the Toyota suggestion system. This session also covers what work teams are responsible for and how to work together as a team. The afternoon session covers fire prevention and fire extinguisher training. By the end of day 4, new employees should be well on their way to being engaged in Toyota's ideology, in particular its mission of quality and its values of teamwork, continuous improvement, and problem solving.²¹

Bank of Baroda (BoB) has started directly recruiting many officers at the senior management level, to meet its requirement in specialized areas of banking. Such officers go through a flexible orientation program consisting of meetings or discussions with leaders, self-learning, and interactions with different departments. The bottom line is that there's more to orienting employees than introducing them to new coworkers. Even without a program like Toyota's, use the onboarding opportunity to start instilling in the new employee the company values and traditions in which you expect the person to become engaged.

LEARNING OBJECTIVE 8-3

List and briefly explain each of the steps in the training process.

training

The process of teaching new or current employees the basic skills they need to perform their jobs.

Overview of the Training Process

Directly after orientation, training should begin. **Training** means giving new or current employees the skills that they need to perform their jobs, such as showing new salespeople how to sell your product. Training might involve having the current jobholder explain the job to the new hire, or multiweek classroom or Internet classes. In one recent year, employers spent about \$1,300 per employee on training.²²

Training is important.²³ If even high-potential employees don't know what to U.S. do and how to do it, they will improvise or do nothing useful at all. Furthermore, high achievers often begin looking for new positions due to dissatisfaction with inadequate training.²⁴ Employers also know that training fosters engagement. For example, Coca-Cola India has a development program called Catalyst which grooms senior-level managers to take up higher positions in the organization. This training program consists of on-the-job training, mentoring as well as formal classroom training. Bank of Baroda and L&T are Indian companies that plan structured development across different hierarchical levels, for high potential talent.²⁵

Aligning Strategy and Training

The employer's strategic plans should guide its long-range training goals.²⁶ In essence, the task is to identify the employee behaviors the firm will need in order to execute its strategy, and then to deduce what skills and knowledge employees will need. Then, put in place training goals and programs to instill these competencies. For example, with the health-care landscape changing, the Walgreens chain had to reformulate its strategy. It broadened its offerings, and today is the second-largest dispenser of flu shots in the United States. Its in-store health clinics provide medical care. It purchased drugstore.com.

The strategic changes affected the skills that Walgreens employees required, and therefore its training and other staffing policies. For example, Walgreens established Walgreens University. It offers more than 400 programs Walgreens employees can take to build their skills (and even get college credit in pharmacy-related topics). For example, some programs develop assistant store manager skills, and Walgreens in-store health clinic nurse practitioners can take courses to expand their medical care expertise. Thus, Walgreens reformulated its training (and other) HR policies to produce the employee skills the company needed to support its new strategy.²⁷ Another example is Larsen and Toubro Limited (L&T) which created L&T Leadership Development Academy to oversee all its training and development programs. The academy, which is also recognized as a Phd research center by Symbiosis International University, Pune partners with academic institutions and experts globally to offer approximately 4 million training manhours to employees.²⁸ The accompanying Strategic Context feature provides another example.

negligent training

A situation where an employer fails to train adequately, and the employee subsequently harms a third party.

IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Unique Training Design of Mahindra Finance

Mahindra and Mahindra Financial Services Limited (MMFSL) is a leading NBFC, which focuses on providing financing support in rural and semi-urban centers of India. MMFSL has more than 1,200 offices across the country, and it was awarded the Aon Hewitt Best Employer Award in 2017.²⁹

Mahindra Finance has an employee strength of around 33,000 people and majority of them are stationed in rural and semi-urban areas. The average age of MMFL's employees is 25, and work requires them to travel 100-150 kms each day, on two wheelers. The challenge before the firm was to provide employees with uniform and regular training inputs. Regular classroom-based training was not feasible due to the mobile nature of their work.

The top leadership and the HR department of MMFSL realized the need for a new approach. The HR team conducted a research and found that the young field force has distinct interests and learning styles. All of them were using smartphones, and they were fond of music, movies and short audio video clips. The employees were also emotionally connected to their two wheelers (motor bikes).

Thus, the company introduced a unique learning solution in the form of short audio clips, designed on the lines of popular TV series. The program could be share over WhatsApp and other social media platforms. The technique allowed employees to access the learning files at their convenience. Using this method, the company could reach 8,000 employees at once. The audio messages were supported by infographics and group discussions, using the technology platform.³⁰

After the success of the first module, MMFSL launched more programs in the same mode.



The ADDIE Five-Step Training Process

The employer should use a rational training process. The gold standard here is still the basic analysis-design-develop-implement-evaluate (ADDIE) training process model that training experts have used for years.³¹ As an example, one training vendor describes its training process as follows:³²

- *Analyze* the training need.
- *Design* the overall training program.
- *Develop* the course (actually assembling/creating the training materials).
- *Implement* training, by actually training the targeted employee group using methods such as on-the-job or online training.
- *Evaluate* the course's effectiveness.

We'll look at each step next.



Analyzing the Training Needs

The training needs analysis may address the employer's *strategic/longer-term* training needs and/or its *current* training needs.

STRATEGIC TRAINING NEEDS ANALYSIS Strategic goals (perhaps to enter new lines of business or to expand abroad) often mean the firm will have to fill new jobs. *Strategic training needs analysis* identifies the training employees will need to fill these future jobs. For example, when Cummins Generator Technologies India decided to build a new high technology green plant at Rangaon in Pune, the firm's top management knew that the plant's employees would need new skills to run the machines and work in the green environment. They worked closely with their HR team to formulate hiring and training programs to ensure the firm would have the people required to populate the new plant.

CURRENT EMPLOYEES' TRAINING NEEDS ANALYSIS Most training efforts aim to improve current performance—specifically training new employees, and those whose performance is deficient.

How you analyze current training needs depends on whether you're training new or current employees. The main task for *new* employees is to determine what the job entails and to break it down into subtasks, each of which you then teach to the new employee.

Analyzing *current* employees' training needs is more complex, because you must also ascertain whether training is the solution. For example, performance may be down due to poor motivation. Managers use *task analysis* to identify new employees' training needs, and *performance analysis* to identify current employees' training needs.

NEW EMPLOYEES: TASK ANALYSIS FOR ANALYZING TRAINING NEEDS Particularly with lower-level workers, it's customary to hire inexperienced personnel and train them. The aim here is to give these new employees the skills and knowledge they need to do the job. **Task analysis** is a detailed study of the job to determine what specific skills (like reading spreadsheets) the job requires. For task analysis, job descriptions and job specifications are essential. They list the job's specific duties and skills, which are the basic reference points in determining the training required. Managers also uncover training needs by reviewing performance standards, performing the job, and questioning current jobholders and supervisors.³³

Some managers supplement the job description and specification with a *task analysis record form*. This form (see Table 8-1) consolidates information regarding required tasks and skills. As it illustrates, the form contains six columns of information, such as "Skills or knowledge required."

task analysis

A detailed study of a job to identify the specific skills required.

performance analysis

Verifying that there is a performance deficiency and determining whether that deficiency should be corrected through training or through some other means (such as transferring the employee).

CURRENT EMPLOYEES: PERFORMANCE ANALYSIS OF TRAINING NEEDS For underperforming current employees, you can't assume that training is the solution. In other words, is it lack of training, or something else? **Performance analysis** is the process of verifying that there is a performance deficiency and determining whether the employer should correct such deficiencies through training or some other means (like transferring the employee).

Performance analysis begins with comparing the person's actual performance to what it should be. Doing so helps to confirm that there is a performance deficiency, and (hopefully) helps the manager to identify its cause. Examples of performance deficiencies might be:

I expect each salesperson to make 10 new contracts per week, but John averages only six.

Other plants our size average no more than two serious accidents per month; we're averaging five.

Ways to identify how a current employee is doing include

- Performance appraisals
- Job-related performance data (including productivity, absenteeism and tardiness, grievances, waste, late deliveries, product quality, repairs, and customer complaints)
- Observations by supervisors or other specialists
- Interviews with the employee or his or her supervisor
- Tests of things like job knowledge, skills, and attendance
- Attitude surveys
- Individual employee daily diaries
- Assessment center results
- Special performance gap analytical software, such as from Saba Software, Inc.

CAN'T DO/WON'T DO Uncovering *why* performance is down is the heart of performance analysis. The aim here is to distinguish between can't-do and won't-do problems. First, determine whether it is a *can't-do* problem and, if so, its specific causes. For example: The employees don't know what to do or what your standards are; there are obstacles such as lack of tools or supplies; there are no job aids (such as color-coded wires that show assemblers which wire goes where); you've hired people who haven't the required skills; or training is inadequate.

Or, it might be a *won't-do* problem. Here employees could do a good job if they wanted to. One expert says, "Perhaps the biggest trap that trainers fall into is [developing] training for problems that training just won't fix."³⁴ For instance, the better solution might be to change the incentives. Sometimes, employees may not be performing as expected because of the traditional attitudes they harbour. In such cases, attitude change interventions have to be introduced, not training. To meet fast changing requirements of customers FMCG major, Hindustan Unilever (HUL) launched a transformation initiative, that included creating digital and customer centric attitudes among the employees.³⁵ Digital training was one of the components of the transformation exercise, to develop e-commerce savvy talent.

TABLE 8-1 Sample Task Analysis Record Form

	Task List	When and How Often Performed	Quantity and Quality of Performance	Conditions Under Which Performed	Skills or Knowledge Required	Where Best Learned
1.	Operate paper cutter	4 times per day		Noisy pressroom: distractions		
1.1	Start motor	4 times per day				On the job
1.2	Set cutting distance		±tolerance of 0.007 in.		Read gauge	On the job
1.3	Place paper on cutting table		Must be completely even to prevent uneven cut		Lift paper correctly	On the job
1.4	Push paper up to cutter				Must be even	On the job
1.5	Grasp safety release with left hand		100% of time, for safety		Essential for safety	On the job but practice first with no distractions
1.6	Grasp cutter release with right hand				Must keep both hands on releases	On the job but practice first with no distractions
1.7	Simultaneously pull safety release with left hand and cutter release with right hand				Must keep both hands on releases	On the job but practice first with no distractions
1.8	Wait for cutter to retract		100% of time, for safety		Must keep both hands on releases	On the job but practice first with no distractions
1.9	Retract paper				Wait until cutter retracts	On the job but practice first with no distractions
1.10	Shut off		100% of time, for safety			On the job but practice first with no distractions
2.	Operate printing press					
2.1	Start motor					

Note: Task analysis record form showing some of the tasks and subtasks performed by a printing press operator.



COMPETENCY PROFILES AND MODELS IN TRAINING AND DEVELOPMENT Employers often focus on building work-related competencies or skills.³⁶ The **competency model** consolidates, usually in one diagram, a precise overview of the competencies someone would need to do the job well. Figure 4-8 (on page 145) was one example. For example, the Association for Talent Development (ATD) built a competencies model for the job of training and development professional. It includes 10 core trainer competencies, including *being able to achieve performance improvement, instructional design, and training delivery*. As one competency example, the model describes *instructional design* as “designing, creating, and developing formal learning solutions to meet

competency model

A graphic model that consolidates, usually in one diagram, a precise overview of the competencies (the knowledge, skills, and behaviors) someone would need to do a job well.

organizational needs; analyzing and selecting the most appropriate strategy, methodologies, and technologies to maximize the learning experience and impact.”³⁷ Training a trainer would thus require, for instance, making sure he or she could, once training is complete, exhibit these skills and knowledge (competencies).³⁸

Competencies-oriented training is similar to other training. Trainees often learn through a mix of real-world exercises, teamwork, classes, and online resources, under a learning coach; the aim is to show mastery of particular competencies.³⁹ This often involves starting with a list of competencies to be learned, criteria for assessing competencies mastery, and examples of the competencies (such as using a spreadsheet). Students then complete their projects and assessors evaluate their competencies.

Designing the Training Program

Armed with the needs analysis results, the manager next designs the training program. *Design* means planning the overall training program including training objectives, delivery methods, and program evaluation. Substeps include setting performance objectives, creating a detailed training outline (all training program steps from start to finish), choosing a program delivery method (such as lectures or Web), and verifying the overall program design with management.

The design should include summaries of how you plan to set a training environment that motivates your trainees both to learn and to transfer what they learn to the job. It is also here that the manager reviews possible training program content (including workbooks, exercises, and activities), and estimates a training program budget.⁴⁰ If the program will use technology, the manager should include a review of the technology as part of the analysis.⁴¹ We’ll look more closely next at several specific design issues.

Most employers can build training programs based on existing online and offline content offered by training content providers.



Tinpixels/Getty Images

SETTING LEARNING OBJECTIVES⁴² At the outset, the trainer should clearly define the program's desired learning outcomes.⁴³ "Clients" will usually phrase their training requests in broad terms, such as "we need sales training." It's the trainer's job to unearth the reasons behind the request, so as to formulate tangible program outcomes (such as "improved product knowledge").

Training, development, learning, or (more generally) *instructional (or learning) objectives* should specify in measurable terms what the trainee should be able to do after successfully completing the training program.⁴⁴ For example:

The technical service representative will be able to adjust the color guidelines on this HP Officejet All-in-One printer copier within 10 minutes according to the device's specifications.

The learning objectives should first address any performance deficiencies that you identified. Thus, if the sales team's sales are 40% too low, the objectives should focus on ensuring that the team members get the product knowledge they need to boost sales. But at the same time, the learning objectives must be practical, given the constraints.

One constraint is financial. The employer will generally want to see and approve a *training budget* for the program. Typical costs include the development costs (of having, say, a human resource specialist working on the program for a week or two), the direct and indirect (overhead) costs of the trainers' time, participant compensation (for the time they're actually being trained), and the cost of evaluating the program. There are algorithms for estimating training program costs, for instance, in terms of labor hours and direct costs.⁴⁵ The question, of course, isn't just "Can we afford this program?" but "Does it pay to spend this much, given the benefits we'll receive—will it improve performance, and if so by how much?" Therefore, prepare to defend the program on a benefits-versus-costs basis.

There are also other constraints to consider. For example, time constraints may require reducing three or four desirable learning objectives to one or two.

CREATING A MOTIVATIONAL LEARNING ENVIRONMENT Municipalities running programs for traffic violators know there's often no better way to get someone's attention than to present a terrifying video accident. They know the best training starts not with a lecture but by making the material meaningful.

The same is true at work. Learning requires both ability and motivation, and the training program's design should accommodate both. In terms of *ability*, the learner–trainee needs (among other things) the required reading, writing, and mathematics skills. Trainees are rarely homogeneous, for instance, in terms of intellectual capacity. In setting the learning environment, the manager therefore should address several trainee-ability issues. For example, how will our program accommodate differences in trainee abilities? Do we need to provide remedial training?

Second, the learner must also be motivated. No manager should waste his or her time showing a disinterested employee how to do something (even if he or she has the requisite ability).

Many books exist on how to motivate employees, but several specific observations are pertinent here.⁴⁶ The training program's effects will be diminished if trainees return to their jobs to snide comments such as, "I hope you liked your little vacation" from colleagues. Therefore, the low-hanging fruit in motivating trainees is to make sure the trainee's peers and supervisor support

the training effort. Ideally, particularly for larger programs, top management should visibly support the program. Beyond that, various motivation theories provide useful guidance. From behavior modification, we know that the training should provide opportunities for positive reinforcement. “Expectancy theory” shows us that the trainees need to know they have the ability to succeed in the program, and that the value to them of completing the program is high. Self-efficacy is crucial—trainees must believe they have the capacity to succeed. We can summarize such motivational points as follows.

MAKE THE LEARNING MEANINGFUL Learners are more motivated to learn something that has meaning for them. Therefore:

1. Provide a bird’s-eye view of the material that you are going to present. For example, show why it’s important, and provide an overview.⁴⁷
2. Use familiar examples. According to Adult learning theory, learning becomes more effective when prior experience is taken into account, so that they can relate better.⁴⁸
3. Organize the information so you can present it logically.
4. Use familiar terms and concepts.
5. Use visual aids.
6. Create a perceived training need in trainees’ minds.⁴⁹ In one study, pilots who experienced pretraining accident-related events subsequently learned more from an accident-reduction training program than did those experiencing fewer such events.⁵⁰ Similarly, “before the training, managers need to sit down and talk with the trainee about why they are enrolled in the class, what they are expected to learn, and how they can use it on the job.” Creating “a desire to learn is crucial.”⁵¹
7. Goal setting is important. In one study, some trainees set goals at the start of the program for the skills they were being taught. After training, they were rated more highly on these skills than were those who hadn’t set goals.⁵²
8. Incorporating “Action Learning”, which allows learners to implement the learning and reflect can make learning meaningful. Action Learning Projects in small teams which benefit the organization, team members and individuals are included in most leadership development programs at IIMA.

MAKE SKILLS TRANSFER OBVIOUS AND EASY Make it easy to transfer new skills and behaviors from the training site to the job site:

1. Maximize the similarity between the training situation and the work situation.
2. Provide adequate practice.
3. Label or identify each feature of the machine and/or step in the process.
4. Direct the trainees’ attention to important aspects of the job. For example, if you’re training a customer service rep to handle calls, explain the different types of calls he or she will encounter.⁵³
5. Provide “heads-up” information. For example, supervisors often face stressful conditions. You can reduce the negative impact by letting supervisory trainees know they might occur.⁵⁴
6. Trainees learn best at their own pace. If possible, let them pace themselves.
7. Intermingle opportunities for trainees to use their new skills or knowledge throughout the training.⁵⁵

REINFORCE THE LEARNING Make sure the learner gets plenty of feedback. In particular:

1. Trainees learn best when the trainers immediately reinforce correct responses, perhaps with a quick “well done.”
2. Learning diminishes late in the day. Partial-day training is generally superior to full-day training.
3. Provide follow-up assignments at the close of training, so trainees are reinforced by applying back on the job what they’ve learned.⁵⁶ Social media tools like WhatsApp, LinkedIn, etc., are used by organizations to maintain the connect.
4. Incentivize. For example, Hudson Trail Outfitters offers trainees incentives of outdoor gear for completing training program segments.⁵⁷ In a recent development (2019) Government of India plans to offer Skill Vouchers to youth who successfully complete trainings under Skill India scheme. The vouchers can be redeemed for future training programs.⁵⁸

ENSURE TRANSFER OF LEARNING TO THE JOB Less than 35% of trainees seem to be transferring what they learned to their jobs a year after training. Improving on that requires steps at each training stage. *Prior to training*, get trainee and supervisor input in designing the program, institute a training attendance policy, and encourage employees to participate.

During training, provide trainees with training experiences and conditions (surroundings, equipment) that resemble the actual work environment.

After training, reinforce what trainees learned, for instance, reward employees for using new skills.⁵⁹

Other Training Design Issues

Managers also need to address other issues during the training design stage. Most importantly, they review alternative training methodologies (lectures, web-based, and so on) and choose likely methods for their program. They also decide how to organize the various training content components, choose how to evaluate the program, develop an overall summary plan for the program, and obtain management’s approval to move ahead. Developing training schedule considering holidays, festivals and business critical periods is another challenge.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

the cloud

Refers to placing software programs and services on vendors’ remote servers, from which they can then deliver these programs and services seamlessly to employees’ digital devices.

When designing the program, a key question is how to deliver it. Increasingly, this occurs via “the cloud.” Basically, **the cloud** refers to placing software programs and services on vendors’ remote servers, from which they can then deliver these programs and services seamlessly to employees’ digital devices.

Cloud-based training revolutionized training, by enabling employers to outsource much or all of their training activities. Because the vendor hosts both the courses and the overall learning management system, the employer need not concern itself with setting up or updating the programs on its own computers; the vendor manages the software. Furthermore, the more advanced cloud-based learning management systems let trainees access the training software and courses from wherever they are, using a variety of mobile devices. This not only improves convenience, but also facilitates collaboration among employees when, for instance, they’re working together on a training project. ■

Developing the Program

Program development means actually assembling the program's training content and materials. It means choosing the specific content the program will present, as well as designing/choosing the specific instructional methods (lectures, cases, Web-based, and so on) you will use. Training equipment and materials include (for example) iPads, workbooks, lectures, PowerPoint slides, Web- and computer-based activities, course activities, and trainer resources (manuals, for instance).

Some employers create their own training content, but there's also a vast selection of online and offline content. IIM Ahmedabad, Executive Education calendar (<https://web.iima.ac.in/exed/>) lists many courses for executives, including satellite-based courses. Similar management courses offered by reputed institutes like XLRI, MDI, TAPMI, MICA, etc., illustrate the many off-the-shelf training and development offerings that are available. It includes General Management programs and functional programs on topics such as coaching, consulting skills, and presentation skills. Online resources provide details of online workshops on hundreds of topics such as game design, survey design, and developing a mentoring program. (Trainers Warehouse and HRdirect are among many other suppliers.)⁶⁰

Bharatskills (www.bharatskills.gov.in), promoted by Ministry of Skill Development and Entrepreneurship, GOI provides information about skill development courses for ITI students. They have partnered with industry to provide industry relevant skill up-gradation (For example, Cisco and Accenture for digital economy skills).⁶¹

HR in Action at the Hotel Paris As Lisa and the CFO reviewed measures of the Hotel Paris's current training efforts, it was clear that some changes were in order. Most other service companies provided at least 40 hours of training per employee per year, while the Hotel Paris offered, on average, no more than five or six. To see how they handled this, see the case on pages 307–308.

LEARNING OBJECTIVE 8-4

Explain how to use five training techniques.

Implementing the Training Program

Once you design and develop the training program, management can implement and then evaluate it. *Implement* means actually provide the training, using one or more of the instructional methods we discuss next.

Note first that there are several practical steps one can take before, during, and after the actual training to improve trainees' learning and engagement:

Before the actual training, send announcements far in advance, provide directions, provide a contact, and make sure participants have pretraining materials.

During training, make sure all participants have a point of contact in case they have questions or need guidance.

After training, remember training does *not* end when the program ends. Instead, periodically ascertain that trainees are transferring their learning to the job.⁶²



On-the-Job Training

We'll see that much training today takes place online or uses other digital tools such as iPhones or iPads. However, much training is still in-person and interpersonal, as on-the-job training notably illustrates.

on-the-job training (OJT)

Training a person to learn a job while working on it.

On-the-job training (OJT) means having a person learn a job by actually doing it. Every employee, from mailroom clerk to CEO, should get on-the-job training when he or she joins a firm. In many firms, OJT is the only training available.⁶³

TYPES OF ON-THE-JOB TRAINING The most familiar on-the-job training is the *coaching or understudy method*. Here, an experienced worker or the trainee's supervisor trains the employee. This may involve simply observing the supervisor, or (preferably) having the supervisor or job expert show the new employee the ropes, step-by-step. On-the-job training was part of multifaceted training at Men's Wearhouse, which combined on-the-job training with comprehensive initiation programs and continuing-education seminars. Every manager was accountable for developing his or her subordinates.⁶⁴ *Job rotation*, in which an employee (usually a management trainee) moves from job to job at planned intervals, is another OJT technique. *Special assignments* similarly give lower-level executives firsthand experience in working on actual problems.

Do not take the on-the-job training effort for granted. Instead, plan out and structure the OJT experience. Train the trainers themselves (often the employees' supervisors), and provide training materials. (They should know, for instance, how to motivate learners). Because low expectations may translate into poor trainee performance, supervisor/trainers should emphasize their high expectations. Effective coaching is essential. In one study of pharmaceutical sales representatives, supervisors' coaching skills were associated with significant differences in goal attainment between sales districts.⁶⁵

Many firms use *peer training* for OJT.⁶⁶ For example, some adopt "peer-to-peer development." The employer selects several employees who spend several days per week over several months learning what the technology or change will entail, and then spread the new skills and values to their colleagues back on the job.⁶⁷ Others use employee teams to analyze jobs and prepare training materials. Some teams reportedly conduct task analyses more quickly and effectively than did training experts. Figure 8-1 presents steps to help ensure OJT success.⁶⁸

Apprenticeship Training

Apprenticeship training is a process by which people become skilled workers, usually through a combination of formal learning and long-term on-the-job training, often under a master craftsperson's tutelage. Indian steel producer, Tata steel has been running an award winning apprenticeship scheme for many years. Amara Raja Group has established the Amara Raja Skill Development Center where prospective candidates from the nearby locality are trained intensively for 6 months to 1 year, and they are later offered employment in the group's factories or other offices. When steelmaker Dofasco (now part of ArcelorMittal promoted by Indian entrepreneur Lakshmi Mittal) discovered that many of its employees would be retiring within 5 to 10 years, it revived its apprenticeship program. New recruits spent about 32 months learning various jobs under the tutelage of experienced employees.⁶⁹

The Apprenticeship Act of 1961 allows Indian companies, both public and private, to hire apprentices and provide them training. The act has been amended recently (i.e., in 2014) to make it more contemporary. Now, the Board of Apprenticeship Training (BOAT) is responsible for the implementation and promotion of this activity.

apprenticeship training

A structured process by which people become skilled workers through a combination of classroom instruction and on-the-job training.

National Apprenticeship Training Scheme (NATS) has been established to help technically qualified candidates gain industry experience for one year. Trainees are paid by the industry, and the government reimburses a part of their expenses. The scheme aims to cumulatively train 50 lakh youth by 2020. Figure 8-2 lists popular apprenticeships.

FIGURE 8-1 Steps in On-the-Job Training

Step 1: Prepare the learner	
	1. Put the learner at ease. 2. Explain why he or she is being taught. 3. Create interest and find out what the learner already knows about the job. 4. Explain the whole job and relate it to some job the worker already knows. 5. Place the learner as close to the normal working position as possible. 6. Familiarize the worker with equipment, materials, tools, and trade terms.
Step 2: Present the operation	
	1. Explain quantity and quality requirements. 2. Go through the job at the normal work pace. 3. Go through the job at a slow pace several times, explaining each step. Between operations, explain the difficult parts, or those in which errors are likely to be made. 4. Again, go through the job at a slow pace several times; explain the key points. 5. Have the learner explain the steps as you go through the job at a slow pace.
Step 3: Do a tryout	
	1. Have the learner go through the job several times, slowly, explaining each step to you. Correct mistakes and, if necessary, do some of the complicated steps the first few times. 2. Run the job at the normal pace. 3. Have the learner do the job, gradually building up skill and speed. 4. Once the learner can do the job, let the work begin, but don't abandon him or her.
Step 4: Follow-up	
	1. Designate to whom the learner should go for help. 2. Gradually decrease supervision, checking work from time to time. 3. Correct faulty work patterns before they become a habit. Show why the method you suggest is superior. 4. Compliment good work.

FIGURE 8-2 Some Popular Apprenticeships

Source: The Board of Apprenticeship publishes a list of trades covered under the Apprentice Act, 1961. Accessed on 31 July 2017 at <http://rdatkolkata.in/Trades%20under%20the%20Apprentices%20Act,%201961.pdf>.

- Fitter
- Turner
- Carpenter
- Plumber
- Mason
- Machinist
- Lift Mechanic
- Cook
- Hotel Clerk
- Plastic Mould-Maker
- Footwear Maker

job instruction training (JIT)
Listing each job's basic tasks, along with key points, in order to provide step-by-step training for employees.

Informal Learning

Training experts use the notation “70/20/10” to show that as a rule, 70% of job learning occurs informally on or off the job, 20% reflects social interactions (for instance, among employees on the job), and only 10% is actual formal training.⁷⁰ A sampling of what would constitute informal training would include participating in meetings, coaching other people, attending conferences, searching the Internet for information, working with customers, job rotation, reading books and journals, playing video games, and watching TV.⁷¹

Employers facilitate informal learning. For example, one Siemens plant places tools in cafeteria areas to take advantage of the work-related discussions taking place. Even installing whiteboards with markers can facilitate informal learning.⁷² Google supports on-site cafeterias, with free or subsidized food. Employees eat together, and through their interactions learn new ideas and build stronger relationships.⁷³

Self Directed Learning (SDL), where individual takes responsibility to plan, learn and evaluate learning is also a popular method. Many Indian organizations support SDL by employees, by allowing time off and full or partial fee reimbursements. Recognizing its importance in medical training, Kerala University of Health Sciences (KUHS) has proposed a new curriculum for medical education with SDL as a component.⁷⁴

Job Instruction Training

Many jobs consist of a sequence of steps best learned step-by-step. Such step-by-step training is called **job instruction training (JIT)**. First, list the job's required steps (let's say for using a mechanical paper cutter) each in its proper sequence. Then list a corresponding “key point” (if any) beside each step. The steps in such a *job instruction training sheet* show trainees what to do, and the key points show how it's to be done—and why, as follows:

Steps	Key Points
1. Start motor	None
2. Set cutting distance	Carefully read scale—to prevent wrong-sized cut
3. Place paper on cutting table	Make sure paper is even—to prevent uneven cut
4. Push paper up to cutter	Make sure paper is tight—to prevent uneven cut
5. Grasp safety release with left hand	Do not release left hand—to prevent hand from being caught in cutter
6. Grasp cutter release with right hand	Do not release right hand—to prevent hand from being caught in cutter
7. Simultaneously pull cutter and safety releases	Keep both hands on corresponding releases—avoid hands being on cutting table
8. Wait for cutter to retract	Keep both hands on releases—to avoid having hands on cutting table
9. Retract paper	Make sure cutter is retracted; keep both hands away from releases
10. Shut off motor	None

As another example, the “van exit” steps UPS teaches drivers include: Shift into the lowest gear or into park; turn off the ignition; apply the parking brake; release the seatbelt with left hand; open the door; place the key on your ring finger.⁷⁵

Lectures

Lecturing is a quick and simple way to present knowledge to large groups of trainees, as when the sales force needs to learn a new product’s features.⁷⁶ Here are some guidelines for presenting a lecture:⁷⁷

- Don’t start out on the wrong foot, for instance, with an irrelevant joke.
- Speak only about what you know well.
- Remember that clarity is king: make sure your audience is clear about what you’re saying.
- Give your listeners signals. For instance, if you have a list of items, start by saying something like, “There are four reasons why the sales reports are necessary. . . . The first. . . .”
- Use anecdotes and stories to show rather than tell.
- Be alert to your audience. Watch body language for negative signals like fidgeting or boredom.
- Maintain eye contact with the audience.
- Make sure everyone can hear. Repeat questions that you get from trainees.
- Leave hands hanging naturally at your sides.
- Talk from notes or PowerPoint slides, rather than from a script.
- Break a long talk into a series of short talks. Don’t give a short overview and then spend a 1-hour presentation going point by point through the material. Break the long talk into a series of 10-minute talks, each with its own introduction. Write brief PowerPoint slides, and spend about a minute on each. Each introduction highlights what you’ll discuss, why it’s important to the audience members, and why they should listen to you.⁷⁸
- Practice. If possible, rehearse under conditions similar to those under which you will actually give your presentation.

Programmed Learning

Whether the medium is a textbook, iPad, or the Internet, **programmed learning** is a step-by-step, self-learning method that consists of three parts:

1. Presenting questions, facts, or problems to the learner
2. Allowing the person to respond
3. Providing feedback on the accuracy of answers, with instructions on what to do next

Generally, programmed learning presents facts and follow-up questions frame by frame. What the next question is often depends on how the learner answers the previous question. The built-in feedback from the answers provides reinforcement.

Programmed learning reduces training time. It also facilitates learning by letting trainees learn at their own pace, get immediate feedback, and reduce their risk of error. Some argue that trainees do not learn much more from programmed learning than from a textbook. Yet studies generally support

programmed learning

A systematic method for teaching job skills, involving presenting questions or facts, allowing the person to respond, and giving the learner immediate feedback on the accuracy of his or her answers.

behavior modeling

A training technique in which trainees are first shown good management techniques in a film, are asked to play roles in a simulated situation, and are then given feedback and praise by their supervisor.

electronic performance support systems (EPSS)

Sets of computerized tools and displays that automate training, documentation, and phone support; integrate this automation into applications; and provide support that's faster, cheaper, and more effective than traditional methods.

job aid

A set of instructions, diagrams, or similar methods available at the job site to guide the worker.

programmed learning's effectiveness.⁷⁹ In addition to the usual programmed learning, computerized *intelligent tutoring systems* learn what questions and approaches worked and did not work for the learner, and then adjust the instructional sequence to the trainee's unique needs.

Behavior Modeling

Behavior modeling involves (1) showing trainees the right (or “model”) way of doing something, (2) letting trainees practice that way, and then (3) giving feedback on the trainees' performance. Behavior modeling is one of the most widely used, well-researched, and highly regarded psychologically based training interventions.⁸⁰ The basic procedure is as follows:

1. **Modeling.** First, trainees watch live or video examples showing models behaving effectively in a problem situation. Thus, the video might show a supervisor effectively disciplining a subordinate, if teaching “how to discipline” is the aim of the training program.
2. **Role-playing.** Next, the trainees get roles to play in a simulated situation; here they are to practice the effective behaviors demonstrated by the models.
3. **Social reinforcement.** The trainer provides reinforcement in the form of praise and constructive feedback.
4. **Transfer of training.** Finally, trainees are encouraged to apply their new skills when they are back on their jobs.

Audiovisual-Based Training

Although increasingly replaced by Web-based methods, audiovisual-based training techniques like DVDs, films, PowerPoint, and audiotapes are still used.⁸¹ The Ford Motor Company uses videos in its dealer training sessions to simulate problems and reactions to various customer complaints, for example.

Vestibule Training

With vestibule training, trainees learn on the actual or simulated equipment but are trained off the job (perhaps in a separate room or *vestibule*). Vestibule training is necessary when it's too costly or dangerous to train employees on the job. Putting new assembly-line workers right to work could slow production, for instance, and when safety is a concern—as with pilots—simulated training may be the only practical alternative. As an example, UPS uses a life-size learning lab to provide a 40-hour, 5-day realistic training program for driver candidates.⁸²

Electronic Performance Support Systems (EPSS)

Electronic performance support systems (EPSS) are computerized tools and displays that automate training, documentation, and phone support.⁸³ When you call a Dell service rep, he or she is probably asking questions prompted by an EPSS; it takes you both, step-by-step, through an analytical sequence. Without the EPSS, Dell would have to train its service reps to memorize an unrealistically large number of solutions. Clients such as Oracle, HP, and L'Oréal use customized EPSS solutions from Whatfix (<https://whatfix.com/reviews/>).⁸⁴

Performance support systems are modern job aids. **Job aids** are sets of instructions, diagrams, or similar methods available at the job site to guide the

worker.⁸⁵ Job aids work particularly well on complex jobs that require multiple steps, or where it's dangerous to forget a step. For example, airline pilots use job aids (a checklist of things to do prior to takeoff).

Videoconferencing

Videoconferencing involves delivering programs over broadband lines, the Internet, or satellite. Vendors such as Cisco offer videoconference products such as Webex and TelePresence.⁸⁶ Cisco's Unified Video Conferencing (CUVC) product line combines Cisco group collaboration and decision-making software with videoconferencing, video telephony, and realistic "TelePresence" capabilities.⁸⁷

Computer-Based Training

Computer-based training (CBT) uses interactive computer-based systems to increase knowledge or skills. For example, employers use CBT to teach employees safe methods for avoiding falls. The system lets trainees replay the lessons and answer questions and is especially effective when paired with actual practice under a trainer.⁸⁸

Computer-based training is increasingly realistic. For example, *interactive multimedia training* integrates text, video, graphics, photos, animation, and sound to create a complex training environment with which the trainee interacts.⁸⁹ In training a physician, for instance, such systems let medical students take a hypothetical patient's medical history, conduct an examination, and analyze lab tests. The students can then interpret the data and make a diagnosis.

SIMULATED LEARNING AND GAMING "Simulated learning" means different things to different people. A survey asked training professionals what experiences qualified as simulated learning experiences. Answers included "virtual reality-type games," "step-by-step animated guide," "scenarios with questions and decision trees overlaying animation," and "online role-play with photos and videos."⁹⁰

Virtual reality puts the trainee in an artificial three-dimensional environment that simulates events and situations experienced on the job.

Egor Kotenko/123RF



Virtual reality (VR) puts the trainee in an artificial three-dimensional environment that simulates events and situations experienced on the job.⁹¹ Sensory devices transmit how the trainee is responding to the computer, and the trainee “sees, feels, and hears” what is going on, assisted by special goggles and sensory devices.⁹² Several National Football League teams in U.S. use VR to train their quarterbacks in going through plays, and thousands of students have taken virtual field trips via Google’s VR pioneer expeditions program.⁹³ Facebook’s purchase of virtual reality glasses maker Oculus VR Inc. highlights virtual reality’s growing potential.⁹⁴

Training games needn’t be complicated. For example, the trainers at Korea Ginseng Corporation (a leader in health-foods) wrote games accessible through app interfaces. Each round of each game is comprised of five multiple-choice quizzes. The more answers the employees get right and the quicker they give their answers, the more points they earn. The trainee/players compete against each other, with the top trainees profiled publicly with their names and pictures.⁹⁵

Online/Internet-Based Training

Most employers are moving from classroom-based to online-based learning because of the efficiencies involved. For example, until recently, many Indian company’s employee training was classroom based. For example, Sales agents often returned to the field without being tested on what they learned, and in general the training was less than effective. Companies like Tech Mahindra and Yes Bank⁹⁶ switched to online learning. This approach allows trainers turned from classroom training to creating new online e-learning courses and monitoring training results. The employees able to get their training on demand without interfering with their daily duties. In U.S., Utha based Clearlink company estimates it saved almost \$800,000 in one recent year by digitizing its training.⁹⁷

Employers use online learning to deliver almost all the types of training we’ve discussed to this point. For example, China’s state-owned postal service, China Post, created a center to manage its online training college, which now delivers about 9,000 hours of training annually, offering over 600 programs.⁹⁸ ADP trains new salespeople online, using a Blackboard learning management system similar to one used by college students.⁹⁹

Learning management systems (LMS) are special software tools that support online training by helping employers identify training needs and to schedule, deliver, assess, and manage the online training itself. GM uses an LMS to help dealers deliver training. The LMS includes a course catalog, supervisor-approved self-enrollment, and pre- and postcourse tests.¹⁰⁰ Other typical LMS features include a course library, quizzes, reports and dashboards (for monitoring training performance), gamification elements (such as points and badges), messaging and notification systems, and a facility for scheduling and delivering both virtual and classroom training.¹⁰¹

Online learning doesn’t necessarily teach individuals faster or better.¹⁰² But, of course, the need to teach large numbers of students remotely, or to enable trainees to study at their leisure, often makes e-learning attractive.¹⁰³ Some employers opt for *blended learning*. Here, trainees use multiple delivery methods (such as manuals, in-class lectures, and Web-based seminars or “webinars”) to learn the material.¹⁰⁴ Thus, the tool manufacturer Stihl offers prospective tool and die makers online learning combined with hands-on technical training

classes.¹⁰⁵ Most IIMS, XLRI, MICA and other institutes offer blended learning programs through partners like Hughes Global Education, VC Now, Talent Edge, etc. We'll look closer at some online learning elements.



LEARNING PORTALS A learning portal offers employees online access to training courses. Many employers arrange to have an online training vendor make its courses available via the employer's portal. Most often, the employer contracts with application service providers (ASPs). When employees go to their firm's learning portal, they actually link to the menu of training courses that the ASP offers for the employer.

Suppliers of learning portals include Pathgather (www.pathgather.com), and PwC's L&D app.¹⁰⁶ Skillsoft (www.skillsoft.com) offers access to thousands of cases, courses, webinars, and other education content. Grovo (www.grovo.com/content) offers short, micro learning content. Open Sesame (www.opensesame.com) combines and curates thousands of online courses from various sources, in Business Skills, Safety, Compliance, Technology, Industry, and Specific Certifications.¹⁰⁷ Employers such as L'Oréal, Marks & Spencer, Tech Mahindra, and Bank of Baroda help their employees enroll in moocs (massive open online courses), widely available through platforms such as Coursera and EDX.

virtual classroom

Teaching method that uses special collaboration software to enable multiple remote learners, using their PCs or laptops, to participate in live audio and visual discussions, communicate via written text, and learn via content such as PowerPoint slides.

THE VIRTUAL CLASSROOM A **virtual classroom** uses collaboration software to enable multiple remote learners, using their PCs, tablets, or laptops, to participate remotely in live audio and visual discussions, communicate via written text, and learn via content such as PowerPoint slides.

The virtual classroom combines the best of online learning offered by systems like Blackboard with live video and audio.¹⁰⁸ Thus, Elluminate Live! lets learners view video, collaborate with colleagues, and learn with shared PowerPoint slides.¹⁰⁹

MOBILE AND MICRO LEARNING More and more learning and development is being “micro-sized” and delivered through mobile devices.¹¹⁰

Mobile learning (or “on-demand learning”) means delivering learning content on the learner's demand, via mobile devices like smart phones, laptops, and tablets, wherever and whenever the learner has the time and desire to access it.¹¹¹ For example, trainees can take full online courses using dominKnow's (www.dominknow.com) iPhone-optimized Touch Learning Center Portal.¹¹²

Most large employers distribute internal communications and training via mobile devices.¹¹³ Employees at CompuCom Systems Inc. access instruction manuals through mobile devices; the company subsidizes employee purchases of smart phones or tablets to facilitate this. J. P. Morgan encourages employees to use instant messaging, for instance, to update colleagues about new products quickly. Natural user interfaces such as Apple's Siri facilitate such training.¹¹⁴

The essential requirement here is to link desired outcomes (such as quickly brushing up on “how to close a sale”) with concise and targeted micro lessons.¹¹⁵ IBM uses mobile learning to deliver just-in-time information (for instance, about new product features) to its sales force. To facilitate this, its training department often breaks up, say, an hour program into “micro” 10-minute pieces. Such “micro learning” training requires “stripping down” the message to its essentials.¹¹⁶ Graphics and videos improve the learning experience.

Web 2.0 learning

Training that uses online technologies such as social networks, virtual worlds (such as Second Life), and systems that blend synchronous and asynchronous delivery with blogs, chat rooms, bookmark sharing, and tools such as 3-D simulations.

Employers also use social media such as LinkedIn, Facebook, and Twitter, and virtual worlds like Second Life to communicate company news and messages and to provide training.¹¹⁷ For example, British Petroleum (BP) uses Second Life to train new gas station employees. The aim here is to show new gas station employees how to use the safety features of gasoline storage tanks. BP built three-dimensional renderings of the tank systems in Second Life. Trainees use these to “see” underground and observe the effects of using the safety devices.¹¹⁸

Web 2.0 learning is learning that utilizes online technologies such as social networks, virtual worlds (such as Second Life), and systems blending synchronous and asynchronous delivery with blogs, chat rooms, bookmark sharing, and tools like 3-D simulations.¹¹⁹ *Collaborative peer forums* require trainee teams to virtually “sell” their sales solution to an executive.¹²⁰ *Scenario-based e-learning* involves inserting realistic problems (“work scenarios”) into trainees’ e-learning lessons.¹²¹

**Diversity Counts: Online Accessibility**

Various laws and initiatives require that individuals with handicaps have full access to online training courses and content.¹²² For example, the Web Content Accessibility Guidelines 2.0¹²³ requires that educational and training content be *perceivable*, *operable*, *understandable*, and *robust* for people with handicaps. *Perceivable* means, for instance, that the program provides captions for multimedia and enables them to see and hear content. *Operable* means, for instance, that users have enough time to use the content. *Understandable* means the text is readable and understandable. *Robust* means the program is compatible with browsers and user tools. ■

HR AND THE GIG ECONOMY: ON-DEMAND MICRO LEARNING AT UBER¹²⁴

If you think all those Uber drivers simply go on the road with no formal training, you’re wrong. There are hundreds of things those drivers must know about driving for Uber—from how to use the Uber app and driving systems, to how to greet and deal with customers—and Uber needs to train more than 30,000 new drivers every week. How do they do it?

Uber’s training challenge is similar to that of most firms that rely on gig workers. The main problems are (1) the trainees aren’t permanent employees but largely just “passing through,” so you must carefully control what you invest in their training; and (2) the workers are all working on their own schedules, so training must be available when each worker wants it, on demand.

So, the short answer to “How does Uber do it?” is that driver training is online, on-demand, and delivered in microparcel. Uber uses a learning management system called MindFlash, which offers its clients around the globe thousands of courses, often focused on training gig workers like Uber’s.¹²⁵ Among other benefits, the MindFlash system provides real-time reporting of trainees’ results, so Uber knows if a driver is ready to go to work.

Gig-friendly training programs like Uber’s have several characteristics. First, everyone involved—management, HR, and especially the gig workers—submit detailed “blueprints” of the workers’ daily activities, from which workers’ (in this case drivers’) duties, skills and knowledge, and required training can be ascertained. Then, the courses are split into short digestible microcourses, stored on the vendor’s cloud, and delivered on demand to each worker’s mobile device when he or she wants it.

Lifelong and Literacy Training Techniques

Lifelong learning means providing employees with continuing learning experiences over their time with the firm, with the aim of ensuring they have the opportunity to learn the skills they need to do their jobs and to expand their horizons. Lifelong learning may thus range from basic remedial skills (for instance, English as a second language) to college degrees. So, for example, a restaurant server might work during the day and pursue a college degree at night, through an employer-subsidized lifelong learning program. Some states support lifelong learning with tax credits.

CULTURAL DIVERSITY TRAINING Diversity training aims to improve cross-cultural sensitivity, so as to foster more harmonious working relationships among a firm's employees. It typically includes improving interpersonal skills, understanding and valuing cultural differences, improving technical skills, socializing employees into the corporate culture, indoctrinating new workers into the work ethic, improving language proficiency and basic math skills, and improving bilingual skills for other employees.¹²⁶ IT company Infosys regularly conducts cultural diversity training for employees deputed overseas. Cultural awareness is promoted by Infosys Multi Cultural ERG (a volunteer employee group), through cultural celebrations and events.¹²⁷

Most employers opt for an off-the-shelf diversity training program. It includes full video, audible narration, user interactions, and pre and postassessments. Vignettes illustrate such things as the potential pitfalls of stereotyping people.¹²⁸ The approach for India cross cultural training developed by Prof Wolfgang Messner (<http://www.wolfgangmessner.com>) covers topics like, understanding cultural differences through Hofstede and GLOBE models, cultural differences in time, communication, feedback and collaboration, career management and overview of the country from social, economic and political perspectives.¹²⁹

Team Training

Teamwork doesn't always come naturally. Companies devote many hours to training new employees to listen to each other and to cooperate. For example, a plant suffered from high turnover and absenteeism.¹³⁰ The plant manager addressed these in part through team training to improve team functioning. Team training focused on technical, interpersonal, and team management issues. In terms of *technical training*, for instance, management encouraged team employees to learn each other's jobs, to encourage flexible team assignments. **Cross training** means training employees to do different tasks or jobs than their own; doing so facilitates job rotation, as when you expect team members to occasionally share jobs or parts of jobs. Thus, some auto dealerships cross train sales and finance employees, so they each learn more about the challenges and details of selling and financing cars.¹³¹

Interpersonal problems often undermine teamwork. Team training therefore typically includes *interpersonal skills* training such as in listening, communicating, handling conflict, and negotiating. Effective teams also require *team management* skills, for instance, in problem solving, meetings management, consensus decision making, and team leadership.

Many employers use team training to build more cohesive management teams. Some use outdoor "adventure" training for this. This involves taking the management team out into rugged terrain, perhaps to learn "survival" skills and thereby foster trust and cooperation. Many Indian companies use outbound training for their teams. Pegasus lists companies like HCL Technologies, BIAL, Biocon, Infosys, etc., as having used their expertise and facilities for outbound

cross training

Training employees to do different tasks or jobs than their own; doing so facilitates flexibility and job rotation.

programs. In such a program, coders, marketing executives, and others spent several days in the mountains surviving—building their own shelters and learning to forage for food and start fires without matches. The reasonable assumption is that the teamwork learned surviving in the field will carry over once the team is back in the office.¹³²

The accompanying HR Tools discussion shows how managers can create their own training programs.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Creating Your Own Training Program

While it would be nice if supervisors in even the largest firms could expect their firms to provide packaged training programs to train the new people they hire, many times they cannot. However, you still have many options.

Create Your Own Five-Step Training Program

Remember ADDIE—analyze (is training the problem?), design (including learning objectives, and motivating the trainee), develop (what specific materials and methods will we use?), implement (train the person), and evaluate. For many types of jobs, start by *setting training objectives*—be specific about what your employee should be able to do after training. Write a job description—list of the job’s duties—if not already available. Write (see Table 8-1, page 276) a *task analysis record form* showing the steps in each of the employee’s tasks. Write a *job instruction training form*; here list a key point (such as “carefully read scale”) for each step (such as “set cutting distance”). Finally, compile the objectives, job description, task analysis form, and job instruction form in a *training manual*. Also, include an introduction to the job and an explanation of how the job relates to other jobs in the company.

Use Private Vendors

The small business owner can tap hundreds of suppliers of prepackaged training solutions. These range from self-study programs from the AIMA (All India Management Association) and to specialized programs. For example, the employer might arrange with PureSafety to have its employees take occupational safety courses from www.puresafety.com.

SkillSoft.com is another example.¹³³ Its courses include software development, business strategy and operations, professional effectiveness, and desktop computer skills. The buyer’s guide from the Association for Talent Development (www.td.org) is a good place to start to find a vendor (check under “Resources and Tools”).¹³⁴ ■



LEARNING OBJECTIVE 8-5

List and briefly discuss four management development methods.

Implementing Management Development Programs

Management development is any attempt to improve managerial performance by imparting knowledge, changing attitudes, or increasing skills. It thus includes in-house programs like courses, coaching, and rotational assignments; professional programs like those given by the CII or NHRD; online programs from various sources; and university programs like executive MBAs or short-term courses offered by the IIMs, XLRI, MDI Gurugram, and NIBM Pune.

Management development is important for several reasons. For one thing, promotion from within is a major source of management talent, and virtually all promoted managers require development to prepare them for their new jobs. Furthermore, management development facilitates organizational continuity, by preparing employees and current managers to smoothly assume higher-level positions.

management development

Any attempt to improve current or future management performance by imparting knowledge, changing attitudes, or increasing skills.

Strategy's Role in Management Development

Management development programs should reflect the firm's strategic plans. For example, strategies to enter new businesses or expand overseas imply that the employer will need succession plans to obtain and/or develop managers who have the skills to manage these new businesses. Management development programs then impart the knowledge, attitudes, and skills these managers will need to excel at their jobs.¹³⁵

Some management development programs are company-wide and involve all or most new (or potential) managers. Thus, new MBAs may join GE's management development program and rotate through various assignments and educational experiences. The firm may then slot superior candidates onto a "fast track," a development program that prepares them more quickly for senior-level commands. Other development programs aim to fill specific top positions, such as CEO. For example, GE will spend years developing, testing, and watching potential replacements for CEO Jeffrey Immelt.

Management development supports the employer's *succession planning process*.¹³⁶ *Succession planning*, as explained in Chapter 5 (page 162), involves developing workforce plans for the company's top positions; it is the ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance.

Candidate Assessment and the 9-Box Grid

Some high-potential managers fail in their jobs, while some low-potential managers excel. How then does an employer choose who to send through an expensive development program?

The 9-Box Grid is one tool. It shows *Potential* from low to medium to high on the vertical axis, and *Performance* from low to medium to high across the bottom—a total of nine possible boxes.

The grid can simplify, somewhat, the task of choosing development candidates. At the extremes, for instance, low potentials/low performers would not move on. The high-potential/high-performance stars most assuredly would. Most employers focus their development resources on high-performance/high-potential stars, and secondarily on those rated high-potential/moderate-performance, or high-performance/moderate-potential.¹³⁷ Other employers focus development resources on the company's "mission-critical employees"—those central to the firm's success and survival. We'll see how later in this section.

In any case, individual assessment should always precede development. At frozen foods manufacturer Schwan, senior executives first whittle 40 or more development candidates down to about 10. Then their program begins with a 1-day assessment by outside consultants of each manager's leadership strengths and weaknesses. This assessment becomes the basis for each manager's individual development plan. Action-learning (practical) projects then supplement individual and group training activities.¹³⁸

We'll look at some popular development activities next.

job rotation

A management training technique that involves moving a trainee from department to department to broaden his or her experience and identify strong and weak points.

Managerial On-the-Job Training and Rotation

Managerial on-the-job training methods include job rotation, the coaching/understudy approach, and action learning. **Job rotation** means moving managers from department to department to broaden their understanding of the business and to test their abilities. The trainee may be a recent college graduate, or a senior manager being groomed for further promotion. In addition to providing a well-rounded experience, job rotation helps avoid stagnation, through the constant introduction of new points of view in each department. It also helps identify each trainee's strong and weak points. Periodic job changing can also improve interdepartmental cooperation: managers become more understanding of each other's problems; and rotation widens one's acquaintances among management. At LVMH (which owns Louis Vuitton), rotating employees among luxury brands gives employees what two experts call "extraordinarily rich learning opportunities."¹³⁹

The accompanying HR Practices feature illustrates this.

■ IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Global Job Rotation

As firms expand globally, job rotation takes on a new meaning. At firms like Shell and BP, rotating managers globally is a primary means through which the firms maintain their flexibility and responsiveness even as they grow to an enormous size.

An advantage of global job rotation (rotating managers from, say, Sweden to New York) is that it builds a network of informal ties that ensures superior cross-border communication and mutual understanding as well as tight interunit coordination and control.

Improved communication and understanding stem from the personal relationships forged as managers work in the firm's various locations. These activities can also enhance organizational control. When employees from the firm's global locations are rotated or brought together at, say, the Harvard Business School or Europe's INSEAD for a management-training program, the aim is more than just teaching basic skills. It is also to build a stronger identification with the company's culture and values. By creating shared experiences and values and a consistent view of the firm and its goals, such activities can facilitate communication. Similarly the sense of shared values (such as "the customer is always right") can facilitate self control, by helping keep managers' behavior in line with the firm's policies and procedures. Finally, cross-border assignments can be magnets for attracting and retaining the best management talent.¹⁴⁰

COACHING/UNDERSTUDY APPROACH In this on-the-job method, the trainee works directly with a senior manager or with the person he or she is to replace; the latter is responsible for the trainee's coaching. Normally, the understudy relieves the executive of certain responsibilities, giving the trainee a chance to learn the job.

ACTION LEARNING Action learning programs give managers released time to work analyzing and solving problems in departments other than their own. It is one of the fastest-growing leadership development techniques, used by companies ranging from Wells Fargo to Boeing.¹⁴¹ Basics include carefully selecting teams of 5 to 25 members, assigning them real-world business problems that extend beyond their usual areas of expertise, and structured learning through coaching and feedback. The employer's senior managers usually choose the projects and decide whether to accept the teams' recommendations.¹⁴²

action learning

A training technique by which management trainees are allowed to work full-time analyzing and solving problems in other departments.

For example, one Pacific Gas & Electric Company (PG&E) program had three phases:

1. A 6- to 8-week *framework* phase, where the team defines and collects data on an issue;
2. The *action forum*—2 to 3 days at PG&E's learning center discussing the issue and developing recommendations; and
3. *Accountability sessions*, where the teams meet with management to review progress.¹⁴³

STRETCH ASSIGNMENTS Stretch assignments are assignments that “push employees beyond their comfort zone,” placing them in jobs and assignments different from and more demanding than those to which they are accustomed.¹⁴⁴ The critical issue here is to understand the employee's capabilities: The assignment should be challenging but not overwhelming.

Off-the-Job Management Training and Development Techniques

There are also many off-the-job methods for training and developing managers.

As most everyone knows, the **case study method** has trainees solve realistic problems after studying written or video case descriptions. The person then analyzes the case, diagnoses the problem, and presents his or her findings and solutions in a discussion with other trainees. *Integrated case scenarios* create long-term, comprehensive case situations. One FBI Academy, U.S. scenario starts with “a concerned citizen's telephone call and ends 14 weeks later with a simulated trial. In between is the stuff of a genuine investigation. . . .” The scripts include background stories, detailed personnel histories, and role-playing instructions; their aim is to develop specific skills, such as interviewing witnesses.¹⁴⁵

Computerized **management games** enable trainees to learn by making realistic decisions in simulated situations. For example, *Interpret* is a team exercise that “explores team communication, the management of information and the planning and implementation of a strategy. It raises management trainees' communication skills, helps them to better manage the information flow between individuals and the team, and improves planning and problem-solving skills.”¹⁴⁶ In other games each team might have to decide how much to spend on advertising, how much to produce, and how much inventory to maintain.

People learn best by being involved, and games gain such involvement. They also help trainees develop problem-solving skills, and focus attention on planning rather than just putting out fires. They can develop leadership skills and foster cooperation and teamwork.

“Gamification” of training in general also reportedly improves learning, engagement, and morale and is fairly easy to achieve. For instance, use point systems, badges, and leaderboards in the training.¹⁴⁷

OUTSIDE SEMINARS Numerous companies and universities offer Web-based and traditional classroom management development seminars and conferences. The selection of 1- to 3-day training programs offered by the All India Management Association (AIMA), and CII illustrate what's available. Annual meetings or conferences of professional associations like National Institute of Personnel Management (NIPM), NHRD, or Indian Medical Association (IMA) provide members ample learning opportunities. The Kerala Chapter of NIPM conducts bi-annual HR Conclave on a contemporary topic, where audience has the opportunity to listen to academics, practitioners, and

case study method

A development method in which the manager is presented with a written description of an organizational problem to diagnose and solve.

management game

A development technique in which teams of managers compete by making computerized decisions regarding realistic but simulated situations.

consultants/service providers about the subject. In 2017, the HR Conclave addressed Health and Wellness in Organizations as its theme. For instance, its offerings range from “developing your emotional intelligence” to “assertiveness training,” “assertiveness training for managers,” “assertiveness training for women in business,” “dynamic listening skills for successful communication,” and “fundamentals of cost accounting.”¹⁴⁸ Specialized groups, such as SHRM, provide specialized seminars for their professions’ members.¹⁴⁹

UNIVERSITY-RELATED PROGRAMS Many universities provide executive education in leadership, supervision, and the like. These can range from 1- to 4-day programs to executive development programs lasting 1 to 4 months. Some of the programs are open to different organizations, while others are customized to specific requirements of a company. IIM Ahmedabad offers more than 75 open programs every year. Sector specific institutions like NIBM Pune and NIA offers programs for specific sectors, like Banking and Insurance.

In one such program, Maruti Suzuki India Limited (MSIL) wanted to improve its executives’ creativity skills. IIM Ahmedabad took a custom approach to design a program that as built from the ground up to suit MSIL’s specific needs. Similarly, Kholer India worked with IIM Bangalore to build capabilities of its dealers. XLRI Jamshedpur offers customized advanced HR program for the HR team members of Accenture India. Indian organizations regularly nominate senior managers to comprehensive management and leadership programs of longer duration. The Advance Management Program of Harvard’s Graduate School of Business Administration is another such program.¹⁵⁰

role-playing

A training technique in which trainees act out parts in a realistic management situation.

ROLE-PLAYING The aim of **role-playing** is to create a realistic situation and then have the trainees assume the parts (or roles) of specific persons in that situation. Each trainee gets a role, such as:

You are the head of a crew of telephone maintenance workers, each of whom drives a small service truck to and from the various jobs. Every so often you get a new truck to exchange for an old one, and you have the problem of deciding to which of your crew members you should give the new truck. Often there are hard feelings, so you have a tough time being fair.¹⁵¹

When combined with the general instructions and other roles, role-playing can trigger spirited discussions among the trainees. The aim is to develop trainees’ skills in areas like leadership and delegating. For example, a supervisor could experiment with both a considerate and an autocratic leadership style, whereas in the real world this isn’t so easy. Role-playing may also help someone to be more sensitive to others’ feelings.

CORPORATE UNIVERSITIES Many firms establish **in-house development centers** (often called *corporate universities*). GE’s Crotonville, New York, management training center was one of the first; it provides GE management employees with a very extensive range of courses and seminars, such as one 2-week program for selected middle managers where they receive coaching on topics ranging from finance to presentation skills.¹⁵² As with management development in general, the best corporate universities (1) actively align offerings with corporate goals, (2) focus on developing skills that support business needs, (3) evaluate learning and performance, (4) use technology to support learning, and (5) partner with academia.¹⁵³

in-house development center

A company-based method for exposing prospective managers to realistic exercises to develop improved management skills.

Increasingly employers offer virtual—rather than brick-and-mortar—corporate university services. For example, Cerner Health offers its employees “Cerner KnowledgeWorks.” This provides three types of knowledge. *Dynamic knowledge* “is real-time content . . . such as e-mails, instant messages, or conference calls.” *Moderated content* “includes best practices, such as case studies or wikis that capture information about situations where we did well and how we did it.” *Codified content* “is more formal documentation of official company practices, and includes installation guides, help files, and formal training or courses.”¹⁵⁴

executive coach

An outside consultant who questions the executive's associates in order to identify the executive's strengths and weaknesses, and then counsels the executive so he or she can capitalize on those strengths and overcome the weaknesses.

EXECUTIVE COACHES Many firms retain executive coaches to help develop their top managers' effectiveness. An **executive coach** is an outside consultant who questions the executive's boss, peers, subordinates, and (sometimes) family in order to identify the executive's strengths and weaknesses, and to counsel the executive so he or she can capitalize on those strengths and overcome the weaknesses.¹⁵⁵ Executive coaching can cost \$50,000 per executive or more, so a careful evaluation is needed before retaining one. In particular, ask, how valuable is the manager's performance to the company, how willing is he or she to participate, what is the challenge the manager is facing, and what if any are the alternatives to executive coaching? Experts recommend using formal assessments prior to coaching, to uncover strengths and weaknesses and to provide more focused coaching.¹⁵⁶

The coaching field is unregulated, so managers should do their due diligence. Check references, and consult the International Coach Federation, a trade group.¹⁵⁷

THE SHRM LEARNING SYSTEM The Society for Human Resource Management (SHRM) U.S. encourages HR professionals to qualify for certification by taking examinations. The society offers several preparatory training programs.¹⁵⁸ These include self-study, and a college/university option that includes classroom interaction with instructors and other learners.¹⁵⁹

Leadership Development and Life-Cycle Learning at Bank of Baroda

Bank of Baroda (BoB), a leading public sector bank in India with international presence and 52,000 employees, has taken people development as an important activity. The bank has assessed that going forward, it has to seriously consider succession planning (as a majority of its current top management will retire by 2020), building leadership pipeline and proactively preparing employees for next roles. The bank's Board now closely monitors the leadership development and succession planning activities.

The “We Lead” initiative of BoB was conceptualized as a multi-layers, four stage program for identified employees. All programs have significant classroom learning, interaction with international and national business/community leaders, self-study, coaching, group assignments, an action learning from high-impact business projects. Some of the initiatives launched at BoB are as follows:

- Baroda Senior Leadership Program (SP) for identified top managers.
- Baroda Emerging Leaders Program (ELP) for senior managers expected to move to senior management roles.
- Baroda Rising Star Program (RSP) for department managers (Chief Managers) heading branches or handling critical support roles.

- Sayaji Rao Gaekwad Scholar Program for managers and officers at middle and junior management levels.

BoB also introduced life-cycle learning concept where employees whose roles are changing (because of promotion or internal moment) attend training programs. The objective of this initiative was to make employees taking new roles be prepared and competent for the assignment. In addition, Baroda Academy and constituent internal training institutes provide regular training programs in general banking operations and specialist areas like credit compliance and risk management, and NPA (non performing asset) management.



TRENDS SHAPING HR: CUSTOMIZED TALENT MANAGEMENT-DIFFERENTIAL DEVELOPMENT ASSIGNMENTS

In today's competitive environment, the usual HR practice of allocating development opportunities and other scarce resources across the board or based solely on performance makes less sense. It often makes more sense to focus more of the employer's resources on the "mission-critical employees" who the employer deems most crucial to the company's future growth.

We'll look closer at how employers do this in the following chapter, but several examples follow:

- High-potential trainees in Johnson & Johnson's "LeAD" leadership development. Program receive advice and regular assessments from coaches brought in from outside the company.¹⁶⁰
- Some companies share future strategies on a privileged basis with rising leaders. For example, they invite them to quarterly meetings with high-level executives, and they let them access an online portal where the rising leaders can review the company's strategy and critical metrics.¹⁶¹ ■

Characteristics of Effective Leadership Development Programs

What are the characteristics of effective leadership training programs?¹⁶² One major study's findings suggest this: The best programs begin with *a thorough needs analysis* to determine tangible program goals; *mandatory participation* in the program is as effective as voluntary participation; self-administered programs are *less* effective than *trainer-based programs*; *practice-based programs* are more effective than information-based programs; providing *feedback* to trainees boosts the program's effectiveness; *on-site programs* (at the company's facilities) are generally more effective than off-site training programs; *face-to-face* leadership training programs are more effective than virtually based programs; and leadership training is as effective for *senior-level leaders* as for lower-level ones.



LEARNING OBJECTIVE 8-6

List and briefly discuss the importance of the steps in leading organizational change.

Managing Organizational Change Programs

With firms from Bank of Baroda, Infosys, Croma and the local kirana stores being disrupted by digital competitors, reorganizations are increasingly familiar, but often fail. McKinsey and Company surveyed 1,800 executives to identify why reorganizations fail. Top reasons included *employees resisting the changes*, *insufficient resources devoted to the effort*, *individual productivity declining as employees become distracted*, *leaders resisting the changes*, and *the organization chart changes but the people are still working the same*.¹⁶³

In addition, *clarity of purpose* is essential. For example, two change experts say that most major change programs (or “transformations”) aim to achieve one of five basic purposes or “quests”: *customer focus*, *nimbleness*, *innovation*, *sustainability*, or *boosting global presence*.¹⁶⁴ They found that when transformations fail, it’s generally because those running them either neglect to clarify up front the program’s purpose/quest, or pursue the wrong quest, or focus on multiple quests.

In any case, companies often have little choice but to change how they do things. For example, Microsoft changed its CEO a few years ago, then reorganized, changed its strategy to include supplying hardware (tablets, etc.), and made other personnel changes. As here, organizational change may impact a company’s strategy, culture, structure, technologies, or the attitudes and skills of its employees.

Again, the hardest part is often overcoming employee resistance. Individuals, groups, and even entire organizations tend to resist change. They do this because they’re accustomed to the usual way of doing things or because of perceived threats to their influence, for instance.¹⁶⁵

Lewin’s Change Process

Psychologist Kurt Lewin formulated a model to summarize the basic process for implementing a change with minimal resistance. To Lewin, all behavior in organizations was a product of two kinds of forces: those striving to maintain the status quo and those pushing for change. Implementing change thus means reducing the forces for the status quo or building up the forces for change. Lewin’s process consists of three steps:

1. **Unfreezing** means reducing the forces that are striving to maintain the status quo, usually by presenting a provocative problem or event to get people to recognize the need for change and to search for new solutions.
2. **Moving** means developing new behaviors, values, and attitudes. The manager may accomplish this through organizational structure changes, through conventional training and development activities, and sometimes through the other organizational development techniques (such as team building) we’ll discuss later.
3. **Refreezing** means building in the reinforcement to make sure the organization doesn’t slide back into its former ways of doing things—for instance, change the incentive system.

In practice, to deal with employee intransigence, some experts suggest that the manager use a process such as the following to implement the change.¹⁶⁶ To bring about a desired organizational change at work:

1. **Establish a sense of urgency.** For example, present employees with a (fictitious) analyst’s report describing the firm’s imminent demise.
2. **Mobilize commitment** through joint diagnoses of problems. Create a task force to diagnose the problems facing the department or the company. This can help to produce a shared understanding of what can and must be improved.
3. **Create a guiding coalition.** It’s never easy to implement big changes alone. Therefore, create a “guiding coalition” of influential people. They’ll act as missionaries and implementers.
4. **Develop and communicate a shared vision** of what you see coming from the change. Keep the vision simple (for example, “We will be faster than anyone at satisfying customer needs.”).¹⁶⁷

Create a sense of urgency, for example, by presenting employees with a report describing the firm's imminent demise—if corrective actions aren't taken.

Rawpixel.com/Shutterstock



5. *Help employees make the change.* Eliminate impediments. For example, do current policies or procedures make it difficult to act? Do intransigent managers discourage employees from acting?
6. *Aim first for attainable short-term accomplishments.* Use the credibility from these to make additional changes.¹⁶⁸
7. *Reinforce the new ways of doing things* with changes to the company's systems and procedures. For example, use new appraisal systems and incentives to reinforce the desired new behaviors.
8. *Monitor and assess progress.* In brief, this involves comparing the company's progress with where it should be.

Using Organizational Development

Beyond this process, there are many other ways to reduce resistance. Among the many suggestions here are that managers impose rewards or sanctions that guide employee behaviors, explain why the change is needed, negotiate with employees, give inspirational speeches, or ask employees to help design the change.¹⁶⁹

Organizational development (OD) taps into the latter. **Organizational development** is a change process through which employees formulate the change that's required and implement it, often with the assistance of trained consultants. OD has several distinguishing characteristics:

1. It usually involves *action research*, which means collecting data about a group, department, or organization, and feeding the information back to the employees so they can analyze it and develop hypotheses about what the problems might be.
2. It applies behavioral science knowledge to improve the organization's effectiveness.

organizational development

A special approach to organizational change in which employees themselves formulate and implement the change that's required.

3. It changes the organization in a particular direction—toward empowerment, improved problem solving, responsiveness, quality of work, and effectiveness.

For example, according to experts French and Bell, one OD method, *team-building meetings*, begins with the consultant interviewing each of the group members and the leader before the meeting.¹⁷⁰ They are asked what their problems are, how they think the group functions, and what obstacles are keeping the group from performing better. The consultant then categorizes the interview data into themes (such as “inadequate communications”) and presents the themes to the group at the start of the meeting. The group ranks the themes in terms of importance, and the most important ones become the agenda for the meeting. The group then explores and discusses the issues, examines the underlying causes of the problems, and begins devising solutions.

Survey research is another of many OD options (see Table 8-2). It requires having employees, usually throughout the organization, complete attitude surveys. The facilitator then uses those data as a basis for problem analysis and action planning. Surveys are a convenient way to unfreeze a company’s management and employees. They provide a comparative, graphic illustration of the fact that the organization does have problems to solve.



LEARNING OBJECTIVE 8-7

Explain why a controlled study may be superior for evaluating the training program’s effects.

Evaluating the Training Effort

Two experts contend that after spending \$560 billion on training in one recent year, employers are getting a poor return on their investment, because it “doesn’t lead to better organizational performance. . . .”¹⁷¹ Particularly with today’s emphasis on measuring results, the manager should therefore evaluate the training program.

There are several things you can measure: participants’ *reactions* to the program, what (if anything) the trainees *learned* from the program, and to what extent their on-the-job *behavior* or *results* changed as a result of the program. In one older survey of about 500 U.S. organizations, 77% evaluated their

TABLE 8-2 Categories of OD Interventions

Human Process	Human Resource Management
T-groups	Goal setting
Process consultation	Performance appraisal
Third-party intervention	Reward systems
Team building	Career planning and development
Organizational confrontation meeting	Managing workforce diversity
Survey research	Employee wellness
Technostructural	Strategic
Formal structural change	Integrated strategic management
Differentiation and integration	Culture change
Cooperative union–management projects	Strategic change
Quality circles	Self-designing organizations
Total quality management	
Work design	

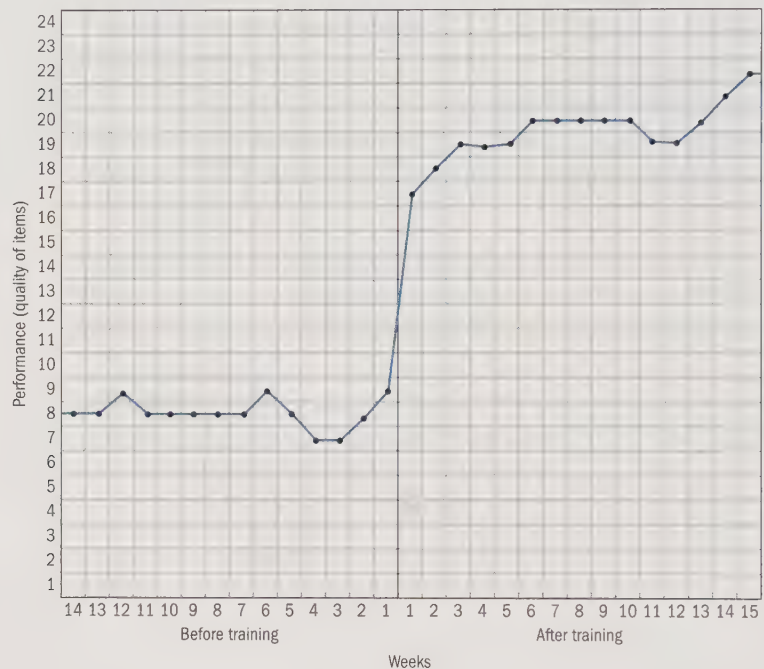
training programs by eliciting reactions, 36% evaluated learning, and about 10% to 15% assessed the program's behavior and/or results; recent evidence suggests these figures probably haven't changed much.¹⁷²

There are two basic issues to address when evaluating training programs. One is the design of the evaluation study and, in particular, whether to use controlled experimentation. The second is, "What should we measure?"

Designing the Study

In deciding how to design the evaluation study, the basic concern is this: How can we be sure that the training (rather than, say, a company-wide wage increase) caused the results that we're seeing? The *time series design* is one option. Here, as in Figure 8-3, you take a series of performance measures before and after the training program. This can provide some insight into the program's effectiveness.¹⁷³ However, you can't be absolutely sure that the training (rather than, say, the raise) caused any change.

FIGURE 8-3 Using a Time Series Graph to Assess a Training Program's Effects



controlled experimentation

Formal methods for testing the effectiveness of a training program, preferably with before-and-after tests and a control group.

Controlled experimentation is therefore the gold standard. A controlled experiment uses a training group and a control group that receives no training. Data (for instance, on quantity of sales or quality of service) are obtained both before and after one group is exposed to training and before and after a corresponding period in the control group. This makes it easier to determine the extent to which any change in the training group's performance resulted from the training, rather than from some organizationwide change like a raise in pay. (The pay raise should have affected employees in both groups.)¹⁷⁴

Training Effects to Measure

The widely used Kirkpatrick Model of training evaluation (named for its developer) lists four training effects employers can measure:¹⁷⁵

1. **Reaction.** Evaluate trainees' reactions to the program. Did they like the program? Did they think it worthwhile?
2. **Learning.** Test whether they learned the principles, skills, and facts they were supposed to learn.
3. **Behavior.** Ask whether the trainees' on-the-job behavior changed because of the training program. For example, are employees in the store's complaint department more courteous toward disgruntled customers?
4. **Results.** Most important, ask, "What results did we achieve, in terms of the training objectives previously set?" For example, did the number of customer complaints diminish? Reactions, learning, and behavior are important. But if the training program doesn't produce measurable performance-related results, then it probably hasn't achieved its goals.¹⁷⁶

Evaluating each of these is straightforward. Assessing *reactions* can be through a short (one page) questionnaire. Or, you might assess trainees' *learning* by testing their new knowledge. For *behavioral change*, perhaps assess the effectiveness of a supervisory performance appraisal training program by asking that person's subordinates, "Did your supervisor provide you with examples of good and bad performance when he or she appraised your performance most recently?" Finally, directly assess a training program's *results* by measuring, say, the percentage of phone caller questions that call center trainees subsequently answered correctly. Similarly, a careful comparison of the training program's costs and benefits can enable the human resource team to compute the program's return on investment. Online calculators are available to facilitate such analyses.¹⁷⁷

A program at MGM Resorts illustrates training evaluation.¹⁷⁸ In the hospitality industry, how likely guests are to return is a crucial metric, and is measured at MGM by "Net Promoter Scores" (NPS). With MGM's NPS scores not up to par, its training team concluded "guest facing" employees weren't sufficiently engaged. It created an Essentials of Hotel Management Program for front desk and assistant managers. The program emphasized skills like collaboration and communications. At the end of the approximately 1-year program, NPS scores had risen about 2% (which is considered a notable accomplishment).¹⁷⁹

Chapter Review

Chapter Section Summaries

- 8-1. Getting your new employee up to speed begins with **orienting and training** him or her. Employee orientation means providing new employees with the information they need to function, and helping them start being emotionally attached to the firm.
- 8-2. There is more to orienting employees than introducing them to their coworkers. Even without a company-wide program like Toyota's, use the onboarding opportunity to begin instilling in the new employee the company values and traditions in which you expect the person to become **engaged**.
- 8-3. We used the acronym **ADDIE** to outline the **training process**: analyze, develop, design, implement, and evaluate. Before training employees, it's necessary to analyze their training needs and design the training program. In training new employees, employers use task analysis—basically, a detailed study of the job—to determine what skills the job requires. For current employees, performance analysis is required, specifically to verify that there is performance efficiency and to determine if training is the solution. Distinguishing between can't-do and won't-do problems is the main issue here. Once you understand the issues, you can design a training program, which means identifying specific training objectives, clarifying a training budget, and then actually designing the program in terms of the actual content.
- 8-4. With this in place, you can turn to **implementing the training program**. Specific training methods include on-the-job training, apprenticeship training, informal learning, job instruction training, lectures, programmed learning, audiovisual-based training, vestibule training, videoconferencing, electronic performance support systems, and computer-based training. Frequently, programs are Internet-based, with employees accessing packaged online programs, backed up by learning management systems, through their company's learning portals. Employers also increasingly use mobile learning, for instance, delivering short courses and explanations to employees' smart phones. Lifelong learning can help ensure employees have the basic educational backgrounds they need to succeed on their jobs. Diversity training aims to create better cross-cultural sensitivity with the goal of fostering more harmonious working relationships.
- 8-5. Most training methods are useful for all employees, but some are particularly appropriate for **management development programs**. Like all employees, new managers often get on-the-job training, for instance, via job rotation and coaching. In addition, it's usual to supply various off-the-job training and development opportunities—for instance, using the case study method, management games, outside seminars, university-related programs, corporate universities, executive coaches, and (for human resource managers) the SHRM learning system.
- 8-6. When facing challenges, managers have to execute **organizational change programs**. These may aim at changing the company's strategy, culture, structure, technologies, or the attitudes and skills of the employees. Often, the trickiest part of organizational change is overcoming employees' resistance to it. With that in mind, steps in an effective organizational change program include establishing a sense of urgency, mobilizing commitment, creating a guiding coalition, developing and communicating a shared vision, helping employees make the change, consolidating gains, reinforcing new ways of doing things, and monitoring and assessing progress. Organizational development involves action research, which means collecting data about a group and feeding the information back to the employees so they can analyze it and develop hypotheses about what the problems might be.
- 8-7. Whatever the training program, it's important to **evaluate the training effort**. You can measure reaction, learning, behavior, or results, ideally using a control group that is not exposed to training, in parallel with the group that you're training.

Discussion Questions

- 8-1. “A well-thought-out orientation program is essential for all new employees, whether they have experience or not.” Explain why you agree or disagree with this statement.
- 8-2. Explain how you would apply our “motivation points” (pages 279–280) in developing a lecture, say, on orientation and training.
- 8-3. What are some typical on-the-job training techniques? What do you think are some of the main drawbacks of relying on informal on-the-job training? What are some advantages to using cloud-based training?
- 8-4. Describe the pros and cons of five management development methods.
- 8-5. Do you think job rotation is a good method to use for developing management trainees? Why or why not?
- 8-6. What is organizational development, and how does it differ from traditional approaches to organizational change?
- 8-7. List and briefly explain each of the steps in the training process.

Individual and Group Activities

- 8-8. You’re the supervisor of a group of employees whose task is to assemble disk drives that go into computers. You find that quality is not what it should be and that many of your group’s devices have to be brought back and reworked. Your boss says, “You’d better start doing a better job of training your workers.”
 - a. What are some of the staffing factors that could be contributing to this problem?
 - b. Explain how you would go about assessing whether it is in fact a training problem.
- 8-9. Choose a task with which you are familiar—mowing the lawn, making a salad, or studying for a test—and develop a job instruction sheet for it.
- 8-10. Working individually or in groups, develop a short, programmed learning program on the subject “Guidelines for Giving a More Effective Lecture.”
- 8-11. Find three or four actual examples of employers using social media for training purposes. At what levels of managers are the offerings aimed? What seem to be the most popular types of programs? Why do you think that’s the case?
- 8-12. Working individually or in groups, develop several specific examples to illustrate how a professor teaching human resource management could use at least four of the techniques described in this chapter in teaching his or her HR course.
- 8-13. Working individually or in groups, develop an orientation program for high school graduates entering your university as freshmen.
- 8-14. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team’s questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.
- 8-15. Perhaps no training task in Afghanistan was more pressing than creating the country’s new army in the early 2000s, which is an ongoing task. These were the people who were to help the coalition bring security to Afghanistan. However, many new soldiers and even officers had no experience. There were language barriers between trainers and trainees. And some trainees found themselves quickly under fire from insurgents when they went as trainees out into the field. Based on what you learned about training from this chapter, list the five most important things you would tell the U.S. officer in charge of training to keep in mind as he designs the training program.



Experiential Exercise

Flying the Friendlier Skies

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice in developing a training program for the job of airline reservation clerk for a major airline.

Required Understanding: You should be fully acquainted with the material in this chapter and should read the following description of an airline reservation clerk's duties:

Customers contact our airline reservation clerks to obtain flight schedules, prices, and itineraries. The reservation clerks look up the requested information on our airline's online flight schedule systems, which are updated continuously. The reservation clerk must deal courteously and expeditiously with the customer, and be able to quickly find alternative flight arrangements in order to provide the customer with the itinerary that fits his or her needs. Alternative flights and prices must be found quickly, so that the customer is not kept waiting, and so that our reservations

operations group maintains its efficiency standards. It is often necessary to look under various routings, since there may be a dozen or more alternative routes between the customer's starting point and destination.

You may assume that we just hired 30 new clerks, and that you must create a 3-day training program.

How to Set Up the Exercise/Instructions: Divide the class into teams of five or six students.

Airline reservation clerks obviously need numerous skills to perform their jobs. This airline has asked you to quickly design the outline of a training program for its new reservation clerks.

- 8-16. You may want to start by listing the job's main duties and by reviewing any work you may have done for the exercise at the end of Chapter 6.
- 8-17. In any case, please produce the requested outline, making sure to be very specific about what you want to teach the new clerks, and what methods and aids you suggest using to train them.

Application Case

Reinventing the Wheel at Apex Door Company

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Jim Delaney, president of Apex Door, has a problem. No matter how often he tells his employees how to do their jobs, they invariably "decide to do it their way," as he puts it, and arguments ensue between Jim, the employee, and the employee's supervisor. One example is the door-design department, where the designers are expected to work with the architects to design doors that meet the specifications. While it's not "rocket science," as Jim puts it, the designers invariably make mistakes—such as designing in too much steel, a problem that can cost Apex tens of thousands of wasted dollars, once you consider the number of doors in, say, a 30-story office tower.

The order processing department is another example. Jim has a very specific and detailed way he wants the order written up, but most of the order clerks don't understand how to use the multipage order form. They simply improvise when it comes to a detailed question such as whether to classify the customer as "industrial" or "commercial."

The current training process is as follows. None of the jobs has a training manual per se, although several have somewhat out-of-date job descriptions. The training for new people is all on the job. Usually, the person leaving the company trains the new person during the 1- or 2-week overlap period, but if there's no overlap, the new person is trained as well as possible by other employees who have filled in occasionally on the job in the past. The training is the same throughout the company—for machinists, secretaries, assemblers, engineers, and accounting clerks, for example.

Questions

- 8-18. What do you think of Apex's training process? Could it help to explain why employees "do things their way"? If so, how?
- 8-19. What role should job descriptions play in training at Apex?
- 8-20. Explain in detail what you would do to improve the training process at Apex. Make sure to provide specific suggestions, please.

Continuing Case

Carter Cleaning Company

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The New Training Program

The Carter Cleaning Centers currently have no formal orientation or training policies or procedures, and Jennifer believes this is one reason why the standards to which she and her father would like employees to adhere to are generally not followed.

The Carters would prefer that certain practices and procedures be used in dealing with the customers at the front counters. For example, all customers should be greeted with what Jack refers to as a “big hello.” Garments they drop off should immediately be inspected for any damage or unusual stains so these can be brought to the customer’s attention, lest the customer later return to pick up the garment and erroneously blame the store. The garments are then supposed to be placed together in a nylon sack immediately to separate them from other customers’ garments. The ticket also has to be carefully written, with the customer’s name and telephone number and the date clearly noted on all copies. The counter person is also supposed to take the opportunity to try to sell the customer additional services such as waterproofing, or simply notify the customer that “Now that people are doing their spring cleaning, we’re having a special on drapery cleaning all this month.” Finally, as the customer leaves, the counter person is supposed to make a courteous comment like “Have a nice day.” Each of the other jobs in the stores—pressing, cleaning and spotting, and so forth—similarly contain certain steps, procedures, and, most important, standards the Carters would prefer to see upheld.

The company has had problems, Jennifer feels, because of a lack of adequate employee training and orientation. For example, two new employees became very upset last month when they discovered that they were not paid at the end of the week, on Friday, but instead were paid (as are all Carter employees) on the following Tuesday. The Carters use the extra two days in part to give them time to obtain everyone’s hours and compute their pay. The

other reason they do it, according to Jack, is that “frankly, when we stay a few days behind in paying employees it helps to ensure that they at least give us a few days’ notice before quitting on us. While we are certainly obligated to pay them anything they earn, we find that psychologically they seem to be less likely to just walk out on us Friday evening and not show up Monday morning if they still haven’t gotten their pay from the previous week. This way they at least give us a few days’ notice so we can find a replacement.”

There are other matters that could be covered during orientation and training, says Jennifer. These include company policy regarding paid holidays, lateness and absences, health benefits (there are none, other than workers’ compensation), substance abuse, eating or smoking on the job (both forbidden), and general matters like the maintenance of a clean and safe work area, personal appearance and cleanliness, time sheets, personal telephone calls, and personal e-mail.

Jennifer believes that implementing orientation and training programs would help to ensure that employees know how to do their jobs the right way. And she and her father further believe that it is only when employees understand the right way to do their jobs that there is any hope their jobs will be accomplished the way the Carters want them to be accomplished.

Questions

- 8-21. Specifically, what should the Carters cover in their new employee orientation program, and how should they convey this information?
- 8-22. In the HR management course Jennifer took, the book suggested using a job instruction sheet to identify tasks performed by an employee. Should the Carter Cleaning Centers use a form like this for the counter person’s job? If so, what should the form look like, say, for a counter person?
- 8-23. Which specific training techniques should Jennifer use to train her pressers, her cleaner/spotters, her managers, and her counter people? Why should these training techniques be used?

Translating Strategy into HR Policies and Practices Case^s

Improving Performance at the Hotel Paris

The New Training Program

The Hotel Paris’s competitive strategy is “To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability.” HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

As she reviewed her company’s training processes, Lisa had many reasons to be concerned. For one thing, the Hotel Paris relied almost exclusively on informal on-the-job training. New security guards attended a 1-week program offered by a law enforcement agency, but all other new hires, from assistant manager to housekeeping crew, learned the rudiments of their jobs from their colleagues and their supervisors, on the job. Lisa noted that the drawbacks of this informality were evident when she

compared the Hotel Paris's performance on various training metrics with those of other hotels and service firms. For example, in terms of number of hours training per employee per year, number of hours training for new employees, cost per trainee hour, and percent of payroll spent on training, the Hotel Paris was far from the norm when benchmarked against similar firms.

As Lisa and the CFO reviewed measures of the Hotel Paris's current training efforts, it was clear that (when compared to similar companies) some changes were in order. Most other service companies provided at least 40 hours of training per employee per year, while the Hotel Paris offered, on average, no more than 5 or 6. Similar firms offered at least 40 hours of training per new employee, while the Hotel Paris offered, at most, 10. Even the apparently "good" metrics comparisons simply masked poor results. For example, whereas most service firms spend about 8% of their payrolls on training, the Hotel Paris spent less than 1%. The problem, of course, was that the Hotel Paris's training wasn't more efficient, it was simply nonexistent.

Given this and the commonsense links between (1) employee training and (2) employee performance, the CFO gave his go-ahead for Lisa and her team to design a comprehensive package of training programs for all Hotel Paris employees. They retained a training supplier to design a 1-day training program composed of lectures and audiovisual material for all new employees. This program covered the Hotel Paris's history, its competitive strategy, and its critical employee capabilities and behaviors, including the need to be customer oriented. With a combination of lectures and video examples of correct and incorrect behaviors, the behavior-modeling part of this program aimed to cultivate in new employees the company's essential values, including, "we endeavor to do everything we can to make the guests' stay 100% pleasant."

The team developed separate training programs for each of the hotel's other individual job categories. For example, it retained a special vendor to create computer-based training programs,

complete with interactive scenarios, for both the front-desk clerks and telephone operators. As with all the new training programs, they had these translated into the languages of the countries in which the Hotel Paris did business. The team chose to stay with on-the-job training for both the housekeeping and valet/door person job categories, but formalized this training with special handbooks for each job category's supervisory staff. For assistant managers, the team developed a new videoconference-based online training and development program. In this way, the new managers could interact with other assistant managers around the chain, even as they were learning the basics of their new jobs. Lisa and the CFO were not at all surprised to find that within a year of instituting the new training programs, scores on numerous employee capabilities and behavior metrics (including speed of check-in/out, percent of employees scoring at least 90% on Hotel Paris's values quiz, and percent room cleaning infractions) improved markedly. They knew from previous analyses that these improvements would, in turn, drive improvements in customer and organizational outcomes, and strategic performance.

Questions

- 8-24. Based on what you read in this chapter, what would you have suggested Lisa and her team do first with respect to training, particularly in terms of the company's strategy? Why?
- 8-25. Have Lisa and the CFO sufficiently investigated whether training is really called for? Why? What would you suggest?
- 8-26. Based on what you read in this Dessler *Human Resource Management* chapter and what you may access via the Web, develop a detailed training program for one of these hotel positions: security guard, housekeeper, or door person.

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Key Terms

employee orientation, 268
training, 272
negligent training, 273
task analysis, 274
performance analysis, 275
competency model, 277
the cloud, 280
on-the-job training (OJT), 282
apprenticeship training, 282

job instruction training (JIT), 284
programmed learning, 285
behavior modeling, 286
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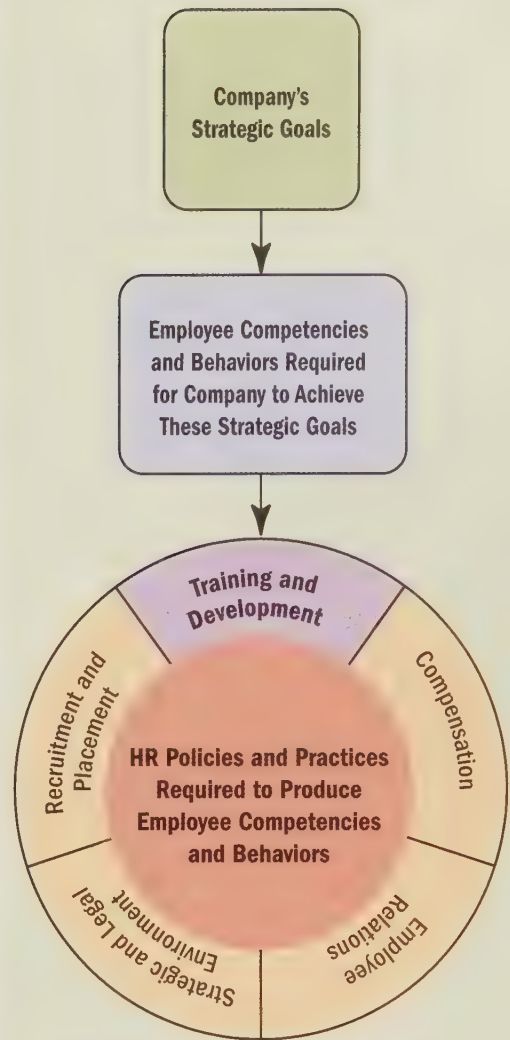


Performance Management and Appraisal

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 9-1** **Describe** the performance appraisal process.
- 9-2** **Discuss** the pros and cons of traditional performance appraisal methods.
- 9-3** **Give examples** of how to deal with potential appraisal error problems.
- 9-4** **List** steps to take in the appraisal interview.
- 9-5** **Explain** key points in how to use the appraisal interview or discussions to boost employee engagement and performance.
- 9-6** **Explain** how you would take a performance management approach to appraisal.



Indofil Industries Limited, part of K K Modi group manufactures, distributes, and markets a wide range of agrochemicals and specialty chemicals. Its products are sold both in the domestic and international markets. The company plans to reach a turnover of ₹ 6000 crores by 2019-20 and has developed a business plan to that effect. A new people strategy has also been developed to ensure the achievement of goals. To help bring employee actions in sync with Indofil's new goals, a new company performance management system (or PMS system) was introduced. We will see what Indofil and others did.

WHERE ARE WE NOW ...

Chapters 6–8 explained selecting, training, and developing employees. After employees have been on the job for some time, you should appraise their performance. The purpose of this chapter is to show you how to do that. The main topics we cover include the **Basics of Performance Appraisal, Tools for Appraising Performance, Dealing with Rater Error Appraisal Problems, The Appraisal Interview, Employee Engagement Guide for Managers, and Performance Management**. Career planning is a logical consequence of appraisal: We'll turn to career planning in Chapter 10.



LEARNING OBJECTIVE 9-1

Describe the performance appraisal process.

performance appraisal

Evaluating an employee's current and/or past performance relative to his or her performance standards.

performance appraisal process

A three-step appraisal process involving (1) setting work standards, (2) assessing the employee's actual performance relative to those standards, and (3) providing feedback to the employee with the aim of helping him or her to eliminate performance deficiencies or to continue to perform above par.

Basics of Performance Appraisal

Few things supervisors do are fraught with more peril than appraising subordinates' performance. Employees tend to be overly optimistic about their ratings. And they know their raises, careers, and peace of mind may hinge on how you rate them. As if that's not enough, few appraisal processes are as fair as employers think they are. Many obvious and not-so-obvious problems (such as the tendency to rate everyone "average") distort the process.¹ However, the perils notwithstanding, performance appraisal plays a big role in managing people.

The Performance Appraisal Process

Performance appraisal means evaluating an employee's current and/or past performance relative to his or her performance standards. You may equate appraisal forms like Figure 9-1 with "performance appraisal," but appraisal involves more than forms. It also requires setting performance standards, and assumes that the employee receives the training, feedback, and incentives required to eliminate performance deficiencies. Stripped to its essentials, performance appraisal always involves the three-step **performance appraisal process**: (1) setting work standards; (2) assessing the employee's actual performance relative to those standards (this often involves some rating form); and (3) providing feedback to the employee with the aim of helping him or her to eliminate performance deficiencies or to continue to perform above par.

Effective appraisals actually begin before the actual appraisal, with the manager defining the employee's job and performance criteria. *Defining the job* means making sure that you and your subordinate agree on his or her duties and job standards and on the appraisal method you will use.

Why Appraise Performance?

There are five reasons to appraise subordinates' performance.

- First we'll see that although many employers are replacing or complementing annual reviews with frequent, informal discussions between managers and employees,² most employers base pay, promotion, and retention decisions in large part on the employee's appraisal. This is one major change adopted by organizations.³
- Appraisals play a central role in the employer's *performance management* process. Performance management means continuously ensuring that each employee's performance makes sense in terms of the company's overall goals.
- The appraisal lets the manager and subordinate develop plans for correcting deficiencies, and to reinforce strengths.
- Appraisals provide an opportunity to review the employee's career plans in light of his or her strengths and weaknesses. We address career planning in Chapter 10.
- Appraisals enable the supervisor to identify if there is a training need, and the training required.

Defining the Employee's Goals and Performance Standards

The performance appraisal should compare "what should be" with "what is done." Managers use one or more of three bases—*goals, job dimensions* or



FIGURE 9-1 Sample Faculty Evaluation Survey

Source: Copyright Gary Dessler, PhD.

Instructions: Thoughtful evaluations help the faculty member better understand and improve his or her teaching practices. For each of the following eight items, please assign a score, giving your highest score of 7 for Outstanding, a score of 4 for Average, your lowest score of 1 for Needs Improvement, and an NA if the question is not applicable:

Evaluation Items

- _____ 1. The instructor was prepared for his/her lectures.
- _____ 2. The course was consistent with the course objectives.
- _____ 3. The instructor was fair in how he/she graded me.
- _____ 4. The instructor carefully planned and organized this course.
- _____ 5. The instructor was available during his/her posted office hours.
- _____ 6. The instructor responded to online inquiries in a timely manner.
- _____ 7. In terms of knowledge and/or experience, the instructor was competent to teach this course.
- _____ 8. Overall how would you rate this course?

traits, and behaviors or *competencies*—to establish ahead of time what the person's performance and behavior standards should be.

First, the manager can assess to what extent *the employee is attaining his or her numerical goals*. Such goals should derive from the company's overall profitability, cost reduction, or efficiency goals. For example, a company-wide goal of reducing costs by 10% should translate into goals for how individual employees and/or teams will cut costs. The HR as a Profit Center discussion shows an example.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Setting Performance Goals at Cigna TTK (now Manipal Cigna)

Cigna TTK Health Insurance Company (now Manipal Cigna), started operations in 2014 and became one of the best places to work for in India by 2017.⁴ The then management team wanted to make the organization “irresistible” to employees. Internal research indicated that employees looked for meaningful work, great work environment and performance support. A new PMS system was introduced, which was a shift away from for traditional model of fixed performance appraisal. Documented goal setting was an important part of the PMS process. The quality of interactions between supervisor and subordinates became more frequent and developmental, compared to few, structured, often threatening conversations. These were called Check-ins, and a guide was developed to assist managers in the task. The new PMS process grouped employees into two broad segments, On-Track and Off-Track, according to meeting the performance expectations. Even after the change in ownership, the company was expected to follow the previous systems.⁵ ■

Managers often say that effective goals are “SMART.” They are *specific*, and clearly state the desired results. They are *measurable*, and answer the question, “How much?” They are *attainable*. They are *relevant*, and clearly reflect what the company wants to achieve. And they are *timely*, with deadlines and milestones.⁶ Research provides insights into setting motivational goals. The accompanying HR Tools discussion summarizes these.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

How to Set Effective Goals

Behavioral science research studies suggest four guidelines for setting performance goals:

1. **Assign specific goals.** Employees who receive specific goals usually perform better than those who do not. Don't just say, "do your best."
2. **Assign measurable goals.** Put goals in quantitative terms, and include target dates/deadlines. If measurable results will not be available, then "satisfactory completion"—such as "satisfactorily attended workshop"—is ok.
3. **Assign challenging but doable goals.** Goals should be challenging, but not so difficult that they appear unrealistic.
4. **Encourage participation.** Managers often face this question: Should I tell my employees what their goals are, or let them participate with me in setting their goals? The evidence suggests that participatively set goals do not consistently result in higher performance than assigned goals, nor do assigned goals consistently result in higher performance than participative ones. It is only when the participatively set goals are set higher than the assigned ones that the participatively set goals produce higher performance. Because it tends to be easier to set higher standards when your employees participate, participation tends to improve performance.⁷ ■

A *second* basis upon which to appraise someone is with a form with *basic job dimensions* or *traits* such as "communication" or "teamwork." The assumption is that "good teamwork" is a useful standard for "what should be."

A third option is to appraise employees based on *their mastery of the competencies* (the skills, knowledge, and/or personal behaviors) the job requires. For example, we saw in Chapter 4 that BP's exploration division appraises employees' skills using a skills matrix (see Figure 4-9, page 147). This matrix shows the basic skills to be assessed (such as "technical expertise"), and the minimum level of each skill the job requires. Employees with the requisite level of each skill are qualified to fill the position. Indofil Industries practices multi-skilling for manufacturing plant workers, and assigns roles based on skill appraisal.

Who Should Do the Appraising?

Appraisal by the immediate supervisor is still the heart of most appraisals. This makes sense. The supervisor is usually in the best position to observe and evaluate the subordinate's performance, and is responsible for that person's performance.

The human resources department is advisory. Generally, they provide the advice on what appraisal tool to use, but leave final decisions on procedures to operating managers. The human resource team should also train supervisors to improve their appraisal skills, monitor the appraisal system's effectiveness, and ensure that it complies with EEO laws.

Relying only on supervisors' appraisals isn't advisable. For example, the supervisor may not appreciate how customers and colleagues see the employee's performance. There is also always some danger of bias. If so, managers have several options.

PEER APPRAISALS Peer appraisals — appraisals by one's peers — are popular. The American military requires generals and admirals to be evaluated by their peers (and subordinates).⁸ Facebook has employees compile peer reviews every 6 months.⁹ Google employees receive annual feedback from their supervisor and their peers.¹⁰ At one software firm, employees recognize each other with “wins” and “project completions” during monthly video meetings.¹¹

Typically, an employee due for a peer appraisal chooses an appraisal chairperson. The latter (perhaps with the employee's input) then selects a supervisor and several peers to evaluate the employee's work. Government of India has introduced a system of 360 appraisals, where peer feedback on senior bureaucrats is also collected by a specially constituted committee. The inputs are used for decisions like placements in sensitive posts and providing feedback.¹²

Peer appraisals are useful. Peers see aspects of the person that the boss may never see, so peers' opinions can be useful. Knowing your colleagues will appraise you can also change behavior. In one study, instituting peer appraisals had “an immediate positive impact on [improving] perception of open communication, task motivation, social loafing, group viability, cohesion, and satisfaction.”¹³

Crowd Appraisals Social media tools allow almost everyone in the company (the “crowd,” as in “crowd appraisals”) to continuously appraise their peers' work. Rypple (owned by salesforce.com) illustrates one such “social performance management platform.”¹⁴ Employees and managers use it to provide feedback and recognition.¹⁵ For example, Washington-based LivingSocial employees use Rypple to comment on each other's work. LivingSocial then uses these comments as input to its formal employee appraisals.¹⁶ Employers often combine such reviews with Globoforce (www.globoforce.com)—type rewards sites, to automate the rewarding and recognizing of colleagues.¹⁷ Academic institutes like IIMs use student feedback to evaluate the performance of faculty members over block of multiple years. The inputs are reportedly considered for decisions like confirmation or tenure-ship, and promotion.

Virtual Games Many employers conduct peer appraisals by using virtual appraisal games. For example, one company created a virtual game that helps employees evaluate and reward each other. Each employee has an avatar. They use these to give real-time feedback to each other, along with virtual gifts and points.¹⁸

RATING COMMITTEES A rating committee typically consists of the employee's immediate supervisor and three or four other supervisors.¹⁹

Using multiple raters is advantageous. It helps cancel out problems such as bias on the part of individual raters.²⁰ It can also help pick up the different facets of an employee's performance observed by different appraisers.²¹ It's thus advantageous to obtain ratings from the supervisor, his or her boss, and at least one other manager who is familiar with the employee's work. Many Indian firms follow the system of self appraisal, supervisor appraisal, review by higher level and even a final level acceptance. The last two levels may be individuals or a rating committee, which moderates ratings across the organization. At a minimum, require that the supervisor's boss sign off on any appraisals the supervisor does.

SELF-RATINGS Some employers obtain employees' self-ratings, usually along with supervisors' ratings. Most Indian firms have this system, where self has to provide a comprehensive account of activities. The problem, of course, is that employees usually rate themselves higher than their supervisors or peers do.²² One older study found that, when asked to rate their own job performances, 40% of employees in jobs of all types placed themselves in the top 10%, and virtually all remaining employees rated themselves in the top 50%; some believe incompetent performers aren't capable of objectively assessing themselves.²³ It's probably best to just ask subordinates to list their accomplishments for the period, before the manager does the appraisal.²⁴

APPRAISAL BY SUBORDINATES Many employers have subordinates rate their managers, usually for developmental rather than for pay purposes. Google, for example, has subordinates assess their managers twice a year with questions such as "my manager shows consideration for me as a person."²⁵ Not surprisingly, anonymity affects the feedback. Managers who receive feedback from subordinates who identify themselves view the upward feedback process more positively. However, subordinates who identify themselves tend to give inflated ratings.²⁶

The evidence suggests that upward feedback does improve managers' performance. One study focused on 252 managers during five annual administrations of an upward feedback program. Managers who were initially rated poor or moderate "showed significant improvements in [their] upward feedback ratings over the five-year period."²⁷

Of course, employees no longer need their employers in order to appraise their boss—sites like Glassdoor and apps like Memo let employees post anonymous comments.²⁸

Many employers use rating committees to appraise employees.



360-DEGREE FEEDBACK With 360-degree feedback, the employer collects performance information all around an employee—from supervisors, subordinates, peers, and internal or external customers—generally for developmental rather than pay purposes.²⁹ The usual process is to have all raters complete online appraisal surveys. Computerized systems then compile this into individualized reports to ratees.

Results are mixed. An older study found that multisource feedback led to “generally small” improvements in subsequent ratings by supervisors, peers, and subordinates.³⁰ On the other hand, such feedback can wake someone up. One manager, surprised that peers and others called him “Attila the Hun,” ratcheted down his disagreeable behaviors.³¹ A study on the effects of 360 feedback on managers in four Indian organization showed that majority reported change in behavior afterwards.³² The change was also supported by action plan and regular follow-up by HR department. In another study in India, 360 degree feedback was found to improve employee performance. Four factors, interpersonal communication, quality of working life, leader-member exchange quality and perception of organizational support were found to influence (mediate) the effect.³³ In any case, make sure the feedback the person receives is productive, unbiased, and development oriented.³⁴ And, collect multisource feedback by using an online system such as Darwin Box Multi Rater Feedback Tool³⁵, allows companies like GVK Biotech to provide access through the web. (<https://gvkbio.darwinbox.in/user/login>).³⁶



LEARNING OBJECTIVE 9-2

Discuss the pros and cons of traditional performance appraisal methods.

Tools for Appraising Performance

We'll see that many employers use online tools such as Oracle's TBE Performance Management Cloud Service and Zing HR to automate the performance appraisal/management process. With their digital dashboards, these tools monitor, report, and correct performance deviations in real time. Yet many employers still use traditional performance appraisal tools like those described next, often supplementing them with frequent coaching and/or continuous feedback via mobile platforms.³⁷



Graphic Rating Scale Method

The **graphic rating scale** is the simplest and most popular method for appraising performance. You'll find several varieties. As in the one in Figure 9-2, the scale may list several *job dimensions or traits* (such as “communication” or “teamwork”) and a range of performance values (from “below expectations” to “role model” or “unsatisfactory” to “outstanding”) for each trait. The supervisor rates each subordinate by circling or checking the score that best describes the subordinate's performance for each trait, and totals the ratings.

A *competency- (or skill- or behavior-)* based graphic rating scale is another option.³⁸ Figure 9-3 (page 323) shows a partial form for a pizza chef. This rating form assesses the person's competencies and skills. Here the employer wants to appraise a pizza chef's job-related skills, one of which is: “Be able to maintain adequate inventory of pizza dough.” As another example, Section I of Figure 9-4 (page 325) focuses on behavioral competencies. Here “Effectively leads and motivates nurses” is a required behavioral competency

graphic rating scale

A scale that lists a number of traits and a range of performance for each. The employee is then rated by identifying the score that best describes his or her level of performance for each trait.

Sample Performance Rating Form

Employee's Name _____

Level: Entry-level employee

Manager's Name _____

Key Work Responsibilities

1. _____
2. _____
3. _____
4. _____

Results/Goals to Be Achieved

1. _____
2. _____
3. _____
4. _____

Communication

1	2	3	4	5
Below Expectations Even with guidance, fails to prepare straightforward communications, including forms, paperwork, and records, in a timely and accurate manner; products require considerable corrections. Even with guidance, fails to adapt style and materials to communicate straightforward information.	Meets Expectations With guidance, prepares straightforward communications, including forms, paperwork, and records, in a timely and accurate manner; products require minimal corrections. With guidance, adapts style and materials to communicate straightforward information.	Role Model Independently prepares communications, such as forms, paperwork, and records, in a timely, clear, and accurate manner; products require few, if any, corrections. Independently adapts style and materials to communicate information.		

Organizational Know-How

1	2	3	4	5
Below Expectations <performance standards appear here>	Meets Expectations <performance standards appear here>	Role Model <performance standards appear here>		

Personal Effectiveness

1	2	3	4	5
Below Expectations <performance standards appear here>	Meets Expectations <performance standards appear here>	Role Model <performance standards appear here>		

Teamwork

1	2	3	4	5
Below Expectations <performance standards appear here>	Meets Expectations <performance standards appear here>	Role Model <performance standards appear here>		

Achieving Business Results

1	2	3	4	5
Below Expectations <performance standards appear here>	Meets Expectations <performance standards appear here>	Role Model <performance standards appear here>		

FIGURE 9-2 Sample Graphic Performance Rating Form with Behavioral Examples

Source: Reproduced with permission of the SHRM Foundation.

FIGURE 9-3 One Item from an Appraisal Form Assessing Employee Performance on Specific Job-Related Skills

Position: Pizza Chef			
Competency/Skill 1: Be able to maintain adequate inventory of pizza dough		Rating	
Each round pizza dough must be between 12 and 14 ounces each, kneaded at least 2 minutes before being placed in the temperature- and humidity-controlled cooler, and kept there for at least 5 hours prior to use. There should be enough, but no more, for each day's demand.	Needs improvement	Satisfactory	Excellent

for a nurse supervisor. Some employers use competency-based self-appraisals, which the employee then discusses with his or her supervisor.³⁹

Finally, the scale might rate (as in Section II of Figure 9-4) how well the employee did with respect to achieving specific profit, cost, or efficiency *goals*. “Nursing unit experienced zero patient medication errors in period” is one example.

Alternation Ranking Method

Ranking employees from best to worst on a trait or traits is another option. Since it's usually easier to distinguish between the worst and best employees, an **alternation ranking method** is most popular. First, list all subordinates to be rated, and then cross out the names of any not known well enough to rank. Then, on a form like that in Figure 9-5 (page 326), indicate the employee who is the highest on the performance dimension being measured and the one who is the lowest. Then choose the next highest and the next lowest, alternating between highest and lowest until all employees have been ranked.

Paired Comparison Method

The **paired comparison method** makes the ranking method more precise. For every trait (quantity of work, quality of work, and so on), you compare every employee with every other employee. With, say, five employees to rate, you use a chart as in Figure 9-6 (page 326) of all possible pairs of employees for each trait. Then choose who the better employee of the pair is. In Figure 9-6, Maria ranked highest for quality of work, whereas Art was ranked highest for creativity.

Forced Distribution Method

The **forced distribution method** is similar to grading on a curve. Its also called the bell curve, which has been a topic of much criticism.⁴⁰ Here, the manager places predetermined percentages of ratees into performance categories. In traditional companies, the top 15% rates are “1's,” the middle 75% are “2's,” and the bottom 10% are “3's” and the “first to go.” GE used top 20%, middle 70%, and bottom 10% for its managers, and most of the bottom 10% lost their jobs.⁴¹ (GE and many other companies no longer strictly adheres to its 20/70/10 split. Their current system is reportedly more informal and less stressful).⁴²

alternation ranking method

Ranking employees from best to worst on a particular trait, choosing highest, then lowest, until all are ranked.

paired comparison method

Ranking employees by making a chart of all possible pairs of the employees for each trait and indicating which is the better employee of the pair.

forced distribution method

Similar to grading on a curve; predetermined percentages of ratees are placed in various performance categories.

Forced distribution's big advantage is in preventing supervisors from simply rating all or most employees "satisfactory" or "high." But as students know, with the forced ranking or relative grading method, method you're either in the top 5% or 10% (and get that "A"), or you're not. Forced distribution systems may also increase the risk of discriminatory adverse impact.⁴³ One survey found that 77% of employers were at least "somewhat satisfied" with forced ranking, while the remaining 23% were dissatisfied. The biggest complaint: 44% said it damages morale.⁴⁴ Forced distribution motivates effort and perhaps performance, but leaves many employees feeling that their appraisals were dysfunctional.⁴⁵ Some writers call it "Rank and Yank."⁴⁶ Furthermore, distinguishing between top and bottom performers is usually not even the problem: "The challenge is to differentiate meaningfully between the other 80%."⁴⁷ Therefore, a committee should review any employee's low ranking.

For many years, Microsoft graded employees against each other in what employees called the "stack."⁴⁸ It now uses frequent qualitative appraisals. In India, in addition to multinational companies (MNCs), firms like Infosys, Airtel, TCS, etc., have moved away from forced rating (bell curve) to a more qualitative and frequent appraisal system which has reduced stress on employees and support them to perform.⁴⁹

Critical Incident Method

With the **critical incident method**, the supervisor keeps a log of positive and negative examples (critical incidents) of a subordinate's work-related behaviors. Every 6 months or so, supervisor and subordinate meet to discuss the latter's performance, using the incidents as examples. One study involved 112 first-line supervisors. The conclusion of this and similar studies is that compiling critical incidents as they occur anchors the eventual appraisal in reality and thus improves appraisal outcomes.⁵⁰

It's thus advisable to keep a diary of such incidents.⁵¹ This provides examples the supervisor can use to explain the person's rating. It makes the supervisor think about the subordinate's appraisal all during the year (so the rating doesn't just reflect the employee's most recent performance). The downside is that such incidents don't produce relative ratings for pay raise purposes.

In Table 9-1, one of the assistant plant manager's duties was to supervise procurement and minimize inventory costs. The critical incident log shows that he or she let inventory storage costs rise 15%; this provides an example of what performance to improve.

Narrative Forms

All or part of the written appraisal may be in narrative form, as in Figure 9-7. Here the person's supervisor assesses the employee's past performance and required areas of improvement. The supervisor's narrative assessment helps the employee understand where his or her performance was good or bad, and how to improve that performance.

Behaviorally Anchored Rating Scales

A **behaviorally anchored rating scale (BARS)** is an appraisal tool that anchors a numerical rating scale with specific illustrative examples of good or poor performance. Developing a BARS typically involves five steps:

critical incident method

Keeping a record of uncommonly good or undesirable examples of an employee's work-related behavior and reviewing it with the employee at predetermined times.

behaviorally anchored rating scale (BARS)

An appraisal method that aims at combining the benefits of narrative critical incidents and quantified ratings by anchoring a quantified scale with specific narrative examples of good and poor performance.

Section I: Competencies: Does this employee exhibit the core competencies the job requires?

Exhibits Leadership Competency

Effectively leads and motivates nurses: Builds a culture that is open and receptive to improved clinical care; sets clear goals for nurses; is supportive of nurses; motivates nurses to achieve their goals.

Generally exceeds expectations	Generally meets expectations	Generally fails to meet expectations
_____	_____	_____

Exhibits Technical Supervisory Competency

Effectively supervises nurses' technical activities: Exhibits the command of technical nursing knowledge and skills required to supervise nurses effectively, such as, assuring that nurses accurately administer medications, treat patients, intervene effectively to patients' expressions of symptoms, and accurately carry out physicians' instructions.

Generally exceeds expectations	Generally meets expectations	Generally fails to meet expectations
_____	_____	_____

Exhibits Managerial Supervisory Competency

Effectively manages unit: Develops annual, monthly, weekly, and daily plans within context of hospital's plans; effectively organizes and assigns nurses' work; maintains required nursing staffing levels and trains nurses; effectively monitors and controls nursing unit performance using hospital-approved metrics.

Generally exceeds expectations	Generally meets expectations	Generally fails to meet expectations
_____	_____	_____

Exhibits Communications Competency

Effectively communicates: Actively listens to and understands what others say; effectively conveys facts and ideas in writing and orally.

Generally exceeds expectations	Generally meets expectations	Generally fails to meet expectations
_____	_____	_____

Exhibits Decision-Making Competency

Effectively recognizes and solves problems and makes decisions: uses data to analyze alternatives and support conclusions; able to solve problems even of moderate to high complexity.

Generally exceeds expectations	Generally meets expectations	Generally fails to meet expectations
_____	_____	_____

Section II: Goals: Did this employee achieve his or her goals for the period you are appraising?

Primary goals employee was to achieve for this period (Note: list specific goals)	Rating					Explanations and/or examples
	5	Exceeded goal				
	3	Met goal				
	1	Did not achieve goal				
Goal 1 Zero patient medication errors	5	4	③	2	1	Nursing unit experienced zero patient medication errors.
Goal 2	5	4	3	2	1	
Goal 3	5	4	3	2	1	
Goal 4	5	4	3	2	1	
Goal 5	5	4	3	2	1	

Employee name and signature	Person doing appraisal	Date of appraisal
_____	_____	_____
_____	_____	_____

Source: Copyright Gary Dessler, PhD.

FIGURE 9-4 Pearson Pennsylvania Hospital Competencies and Goals-Based Appraisal Form for a Nurse-Supervisor

Source: Copyright Gary Dessler, PhD.

FIGURE 9-5 Alternation Ranking Method**ALTERNATION RANKING SCALE**

Trait: _____

For the trait you are measuring, list all the 20 employees you want to rank. Put the highest-ranking employee's name on line 1. Put the lowest-ranking employee's name on line 20. Then list the next highest ranking on line 2, the next lowest ranking on line 19, and so on. Continue until all names are listed in order of high to low.

Highest-ranking employee	
1. _____	11. _____
2. _____	12. _____
3. _____	13. _____
4. _____	14. _____
5. _____	15. _____
6. _____	16. _____
7. _____	17. _____
8. _____	18. _____
9. _____	19. _____
10. _____	20. _____
Lowest-ranking employee	

1. **Write critical incidents.** Ask the job's jobholders and/or supervisors to write specific illustrations (critical incidents) of effective and ineffective performance on the job.
2. **Develop performance dimensions.** Have these people cluster the incidents into five or ten performance dimensions, such as "salesmanship skills."

FIGURE 9-6 Paired Comparison Method

Note: + means "better than." - means "worse than." For each chart, add up the number of + 's in each column to get the highest-ranked employee.

FOR THE TRAIT "QUALITY OF WORK"						FOR THE TRAIT "CREATIVITY"					
Employee rated:						Employee rated:					
As Compared to:	A Art	B Maria	C Chuck	D Diane	E José	As Compared to:	A Art	B Maria	C Chuck	D Diane	E José
A Art		+	+	-	-	A Art		-	-	-	-
B Maria	-		-	-	-	B Maria	+		-	+	+
C Chuck	-	+		+	-	C Chuck	+	+		-	+
D Diane	+	+	-		+	D Diane	+	-	+		-
E José	+	+	+	-		E José	+	-	-	+	
↑ Maria ranks highest here						↑ Art ranks highest here					

TABLE 9-1 Examples of Critical Incidents for Assistant Plant Manager

Continuing Duties	Targets	Critical Incidents
Schedule production for plant	90% utilization of personnel and machinery in plant; orders delivered on time	Instituted new production scheduling system; decreased late orders by 10% last month; increased machine utilization in plant by 20% last month
Supervise procurement of raw materials and inventory control	Minimize inventory costs while keeping adequate supplies on hand	Let inventory storage costs rise 15% last month; overordered parts “A” and “B” by 20%; underordered part “C” by 30%
Supervise machinery maintenance	No shutdowns due to faulty machinery	Instituted new preventative maintenance system for plant; prevented a machine breakdown by discovering faulty part

3. **Reallocate incidents.** To verify these groupings, have another team who also knows the job reallocate the original critical incidents to the cluster they think it fits best. Retain a critical incident if most of this second team assigns it to the same cluster as did the first.
4. **Scale the incidents.** This second group then rates the behavior described by the incident as to how effectively or ineffectively it represents performance on the dimension.
5. **Develop a final instrument.** Choose about six or seven of the incidents as the performance dimension’s behavioral anchors.⁵² Figure 9-8 illustrates a BARS, for a car salesperson.

Three researchers developed a BARS for checkout clerks.⁵³ They collected many checkout clerk critical incidents, and then grouped these into eight performance dimensions: Knowledge and Judgment; Conscientiousness; Skill in Human Relations; Skill in Operation of Register; Skill in Bagging; Organizational Ability of Checkstand Work; Skill in Monetary Transactions; and Observational Ability.

They then developed behaviorally anchored rating scales *for each of these eight dimensions*. Each contained a vertical scale (ranging from 1 to 9) for rating performance from “extremely poor” to “extremely good.” Then they inserted specific critical incidents (such as “by knowing the price of items, this checker would be expected to look for mismarked and unmarked items”) to anchor or illustrate each level of performance.

The BARS method has several advantages. Most notably, the critical incidents along the scale illustrate what to look for in terms of superior, average, and poor performance. They also make it easier to explain the ratings to appraisees. And, the clustering of similar critical incidents into several performance dimensions (such as “salesmanship skills”) helps make the performance dimensions more independent of one another. (For example, a rater should be less likely to rate an employee high on all dimensions simply because he or she was rated high in “salesmanship skills.”)⁵⁴

FIGURE 9-7 Sample Narrative Appraisal Form

Source: Copyright Gary Dessler, PhD.

Supervisory Appraisal of Employee: Narrative Form		
Employee's Name	Department	Present Position
Appraisal Date	Supervisor Name/Title	Performance Period

Supervisor-Appraiser: First, briefly describe results for each of this employee's goals this year. Then, preferably using specific examples, describe the level of the employee's job knowledge, skills, and abilities. Then, jointly set goals for the coming period and describe required employee training and development in each area. Finally, describe your overall assessment of this employee's work this period.

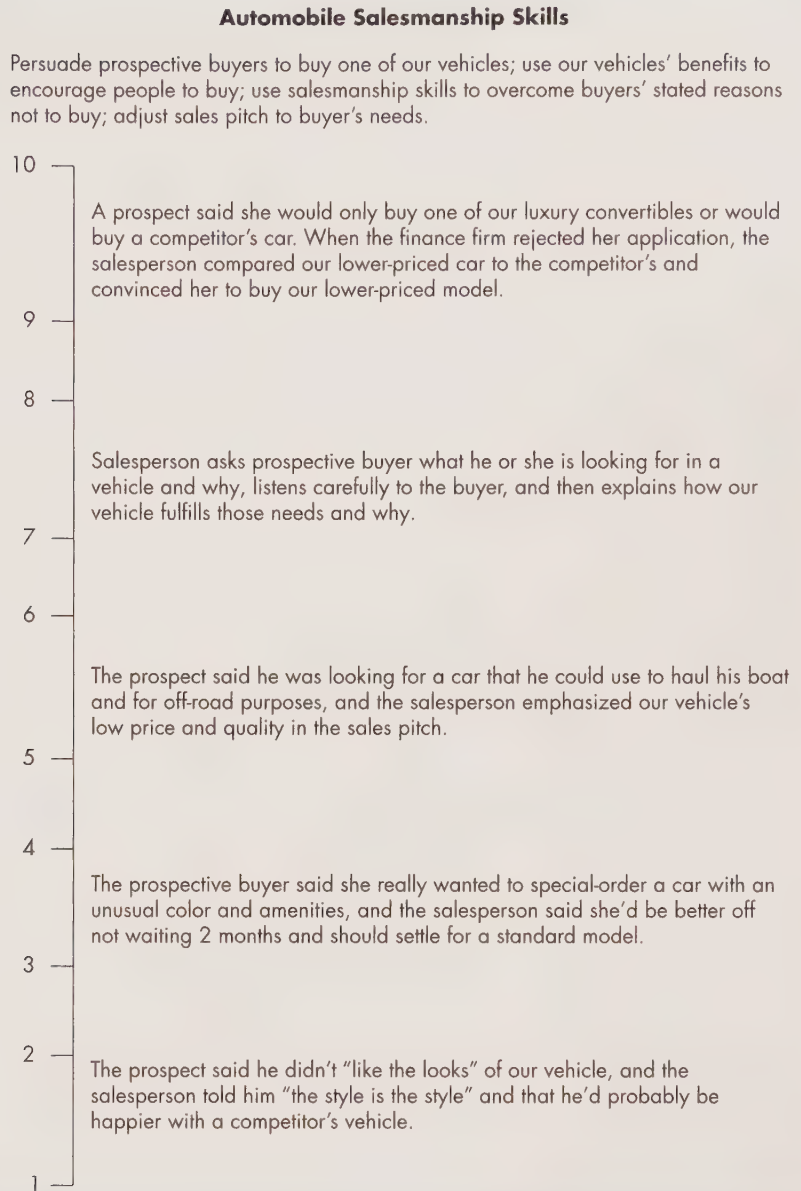
Appraisal Criteria	Narrative Appraisal	Goals, Training, & Development
Job-Related Goals 1. _____ 2. _____ 3. _____	_____	_____
Employee Job Knowledge	Sam's knowledge of chemical engineering is exceptional; her colleagues use her as a resource when they have questions.	Help prepare her for more responsibility by enrolling in a chemical engineering masters degree program.
Employee Job Skills		
Employee Job Abilities		
Overall Assessment		

Management by Objectives

The term *management by objectives (MBO)* usually refers to a multistep company-wide goal-setting and appraisal program. MBO requires the manager to set specific measurable, organizationally relevant goals with each employee, and then periodically discuss the latter's progress toward these goals. The steps are:

1. **Set the organization's goals.** Establish a company-wide plan for next year and set goals.
2. **Set departmental goals.** Department heads and their superiors jointly set goals for their departments.
3. **Discuss departmental goals.** Department heads discuss the department's goals with their subordinates and ask them to develop their own individual goals. They should ask, "How could each employee help the department attain its goals?"
4. **Define expected results (set individual goals).** Department heads and their subordinates set short-term performance targets for each employee.
5. **Conduct performance reviews.** After a period, department heads compare each employee's actual and expected results.

FIGURE 9-8 Behaviorally Anchored Rating Scale



6. **Provide feedback.** Department heads hold periodic performance review meetings with subordinates. Here they discuss the subordinates' performance and make any plans for rectifying or continuing the person's performance.

Formal MBO programs require numerous time-consuming meetings, and their use has diminished.⁵⁵ However, some companies successfully use streamlined versions. For example, Google's CEO sets company-wide "OKRs" (objectives and key results) quarterly. All Google employees then make sure their own goals are in synch with the CEO's. All employees' goals are posted on Google's internal website next to their names.⁵⁶

Appraisal in Practice: Using Forms, Installed Software, or Cloud-Based Systems

Employers use either hard-copy forms, installed appraisal software packages, or cloud-based systems to actually conduct appraisals. Many smaller employers use hard-copy forms, available from vendors. Forms are simple to use, but become time-consuming as headcount rises.

Computerization expedites appraisals. Thus with one early package, Employee Appraiser, the manager sees a graphic rating scale with behaviorally anchored examples (such as “presents ideas clearly” and “lacks structure”). The manager chooses the best phrase, and Employee Appraiser generates an appraisal with sample text.⁵⁷

Most computerized appraisal packages today (whether installed locally or cloud-based) are *modules*—components of talent management systems that also include, for instance, applicant tracking systems. For example, the cloud-based HR software, ZingHR (www.zinghr.com), allows users to customize appraisal and present a menu of evaluation dimensions. Within each dimension (such as communication), there are separate performance factors for things like writing, verbal communication, and receptivity to criticism. When a user clicks on a performance factor, he or she is presented with a scale. However, instead of numerical ratings, another software “Employee Appraiser” uses behaviorally anchored examples. Thus, for verbal communication there are six choices, ranging from “presents ideas clearly” to “lacks structure”. The manager chooses the phrase that most accurately describes the worker. Then Employee Appraiser generates an appraisal with sample text. For small and medium enterprises (SMEs) in India, the HR function company Husys (www.Husys.net) offers a unique and simple to use technology solution, ApHusys (www.aphusys.com), which is available to SME managers and employees on mobile.

Successfactors, a subsidiary of software giant SAP, offers a web-based employee appraisal solution. It includes performance review forms and approval process, 51 competencies for most job types, a built-in writing assistant, and a legal scan.⁵⁸

Electronic Performance Monitoring

electronic performance monitoring (EPM)

Having supervisors electronically monitor the amount of computerized data an employee is processing per day, and thereby his or her performance.

Electronic performance monitoring (EPM) systems allow managers to monitor the employees’ rate, accuracy, and time spent working online.⁵⁹

EPM can improve productivity, but also seems to raise employee stress. A study conducted among 16 student workers indicated that while EPM showed positive impact in terms of efficiency improvement and data collection, the negative effects like reduced job satisfaction and affective commitment has higher cost. Intensity of negative attitudes increased when close, individual focused and unpredictable EPM was introduced.⁶⁰ However, one researcher concludes that electronic performance monitoring “represents the future of performance feedback where supervisors can electronically monitor the amount and quality of work an employee is producing and have objective indicators of employee performance immediately available and visible.”⁶¹

Similarly, some employers track workers’ performance through wearables. Many supervisors, including in India use tools like whatsapp and messengers or location finders to monitor employees. The food delivery companies like Zomato and Swiggy and online taxi operators like Ola and Uber use location

identifiers and timers to centrally track performance, and reward them accordingly. For example, the British retailer Tesco has warehouse workers wear armbands. These track which specific goods each worker is moving and how long the task is taking to complete, and quantify and report things like how long it takes each worker to fulfill each order.⁶²

Conversation Days

When employees at Juniper Networks Inc. expressed concerns about their annual performance reviews and the lack of positive feedback, Juniper changed the process. Instead of once-a-year performance reviews, there are now semiannual “conversation days.” The stress in these manager–employee conversations is on areas for improvement and growth, and on setting stretch goals that align with the employee’s career interests. There are no explicit performance ratings. GE is similarly experimenting with substituting frequent conversations for traditional appraisals. In 2016, Infosys technologies introduced a new performance management system iCount, where employees receive regular, future focused feedback.⁶³

Using Multiple Methods

Which appraisal tool to use? In practice, most use a rating form that merges several approaches. For example, Figure 9-2 (page 322) has a numerical graphic rating scale anchored with behavioral incidents such as “Even with guidance, fails to....” The Strategic Context feature (page 302) shows how one employer created a new appraisal system.



TRENDS SHAPING HR: CUSTOMIZED TALENT MANAGEMENT

There is usually some customizing of appraisals. For example, rating a salesperson based on whether she attained her sales goals assumes she had her own goals to meet.

Today, some employers are customizing their appraisal in other ways. For example, some companies adapt their appraisals and rewards to how critical the employees are to the company’s strategic success—their “mission-critical” employees. Thus, GE prioritizes jobs and focuses on what it calls its employee “game changers.”⁶⁴ Unilever includes 15% of employees per management level in its high-potential list each year.⁶⁵ Shell China appoints “career stewards” to meet regularly with “emerging leaders.”⁶⁶ McKinsey & Co. recommends limiting the “high potential group in whom the company invests heavily to no more than 10 to 20% of managerial and professional staff.”⁶⁷

Figure 9-9 illustrates one way to customize appraisals. One company might use a matrix to plot employees by *Performance* (high, average, low) and *Value to the Organization* (critical, important, non-critical). Consider a chemical engineering company. Here the firm’s experienced engineers may be “critical,” engineer-trainees, sales, accounting, and HR “important,” and outsourceable employees such as maintenance “non-critical.” Few Indian organizations use the Skill-Will Matrix to group employees.⁶⁸

The company would then tie each employee’s pay, development including coaching, dismissal, and other personnel decisions to each employee’s position in the matrix, in other words to both their performance rating and their criticalness to the company (so, not unreasonably, someone with more critical skills

might get more development than would someone who is “non-critical”). This employer might also design its incentives, promotions, and raises to support rather than turn off the mission-critical engineers.⁶⁹ ■

The Gig Economy feature shows how Uber assesses its drivers.

■ **HR AND THE GIG ECONOMY: RATING UBER DRIVERS⁷⁰**

Uber’s driver rating system rates drivers on three metrics—on how passengers rate the driver, on what percentage of rides the driver accepts, and on how many he or she cancels. Uber reportedly wants drivers to maintain at least an 80–90% acceptance rate and no more than a 5% trip cancellation rate.

As most Uber users know, after every ride Uber prompts the passenger to rate the driver on a 1–5 star scale. A new driver begins with a 5-star rating. Then, as more passengers rate the driver, the driver’s average rating tends to change. The driver’s rating is generally an average of his or her last 500 trips. For drivers, an average below 4.6 reportedly puts the driver in the “danger zone” for possible deactivation. Only about 2–3% of drivers fall here. One

or two star ratings often reflect arguments or harassment. Drivers get weekly emails with notices if their activation is in danger.

Potential Rating Problems

As with most ratings systems, the driver ratings may say more about the passenger than about the driver. For example, people may view a 4-star rating as a “B,” when in fact at Uber it’s a failing grade. Furthermore, most employers try to minimize biased appraisals by supervisors: that’s harder to guard against when the rater isn’t an employee (and is probably a stranger). Furthermore, extraneous factors (such as surge pricing) can trigger lower ratings.

How to Get a Better Driver Rating

In any case, Uber and Uber drivers list some of the things drivers can do to get better ratings. Some things to avoid include having an attitude, not knowing your way around, reckless driving, and texting while driving. Some “Do’s” for drivers include offer passengers bottled water, open the door, offer to carry bags, keep the car clean—and don’t ask for five-star ratings. Higher rated drivers stand chance of getting better earnings and rewards. Recently, in Uber India introduced a system by which customers who secured low ratings continuously are removed from the platform. This move is expected to even out the rider-driver equation ⁷¹

EMPLOYEE PERFORMANCE

HOW CRITICAL?	How Critical Is This Person's Position to Our Company?	High	Average	Low
	This person is in a position that is critical to our company's survival and growth	Provide additional development experiences and rewards	Provide additional development experiences and rewards	Consider additional training to improve performance
	This person's position serves an important role but is not critical to our company's survival and growth	Provide additional development experiences to move to more important role	Consider additional training	Consider additional training, or replacement
	This person is in a position that is non-critical and (for example) is outsourceable	Consider providing additional training and development to move to more important role	Consider additional training	Consider dismissal or outsourcing

FIGURE 9-9 One Way to Customize Appraisals

LEARNING OBJECTIVE 9-3

Give examples of how to deal with potential appraisal error problems.

unclear standards

An appraisal that is too open to interpretation.

halo effect

In performance appraisal, the problem that occurs when a supervisor's rating of a subordinate on one trait biases the rating of that person on other traits.

Supervisors must be familiar with appraisal techniques, understand and avoid problems that can cripple appraisals, and know how to conduct appraisals fairly.

Dealing with Rater Error Appraisal Problems

In a perfect world, all employers would use performance appraisal systems with clear goals, fair appraisals, swift feedback, and useful coaching. Alas, that is rarely the case.⁷² Graphic-type rating forms in particular are susceptible to several “rater error” problems. These are systematic errors in judgment that occur when people evaluate each other: unclear standards, halo effect, central tendency, leniency or strictness, and bias.

Potential Rating Problems

UNCLEAR STANDARDS Table 9-2 illustrates the **unclear standards** problem. This rating scale seems objective. However, it might well result in unfair appraisals, because the traits and degrees of merit are ambiguous. For example, different supervisors might define “good” performance, “fair” performance, and so on, differently. The same is true of traits such as “quality of work.”⁷³

The way to fix this problem is to include descriptive phrases that define or illustrate each trait, as in Figure 9-2. That form spells out what measures like “Role Model” or “Below Expectations” actually mean. This specificity leads to more consistent and more easily explained appraisals.

HALO EFFECT Experts define **halo effect** as “the influence of a rater’s general impression on ratings of specific ratee qualities.”⁷⁴ For example, supervisors often rate unfriendly employees lower on all traits, rather than just on “gets along well with others.” Being aware of this problem is a step toward avoiding it. Supervisory training can also alleviate the problem, as can using a BARS (on which, recall, the performance dimensions are usually more independent of each other).

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TABLE 9-2 A Graphic Rating Scale with Unclear Standards

	Excellent	Good	Fair	Poor
Quantity of work				
Quality of work				
Creativity				
Integrity				

Note: For example, what exactly is meant by “good,” “quantity of work,” and so forth?

central tendency

A tendency to rate all employees the same way, such as rating them all average.

CENTRAL TENDENCY Central tendency means rating all employees average. For example, if the rating scale ranges from 1 to 7, raters tend to avoid the highs (6 and 7) and lows (1 and 2) and rate most of their people between 3 and 5. Doing so distorts the evaluations, making them less useful for promotion, salary, or counseling purposes. Ranking employees instead of using graphic rating scales can reduce this problem, since ranking means you can’t rate them all average.

strictness/leniency

The problem that occurs when a supervisor has a tendency to rate all subordinates either high or low.

LENIENCY OR STRICTNESS Other supervisors tend to rate all their subordinates high (or low), just as some instructors are notoriously high or low graders. This **strictness/leniency** problem is especially severe with graphic rating scales. *Ranking* forces supervisors to distinguish between high and low performers.

There are other solutions. The employer can recommend that supervisors avoid giving all their employees high (or low) ratings. A second is to require a distribution—that, say, about 10% of the people should be rated “excellent,” 20% “good,” and so forth. (But remember it may not be an error at all, as when all subordinates really are superior.)⁷⁵

REGENCY EFFECTS Recency means letting what the employee has done recently blind you to what his or her performance has been over the year. The main solution is to accumulate critical incidents all year long.



Diversity Counts: The Problem of Bias

bias

The tendency to allow individual differences such as age, race, and sex to affect the appraisal ratings employees receive.

Biased appraisals (**bias** means the tendency to allow individual differences such as age, race, and sex to affect the appraisal ratings employees receive) have various causes. One is rater personality. For example, raters who score higher on “conscientiousness” tend to give their peers lower ratings—they were stricter, in other words; those more “agreeable” gave higher ratings—they were more lenient.⁷⁶ Furthermore, “performance ratings amplify the quality of the personal relationship between boss and employee. Good relationships tend to create good [appraisal] experiences, bad relationships bad ones.”⁷⁷

Unfortunately, subordinates’ demographic traits (age, race, gender, and so on) also affect ratings. In one study on promoted employees, “suggested that women were held to stricter standards for promotions.”⁷⁸ In another study, raters penalized successful women for their success.⁷⁹ The point is that the appraisal often says more about the appraiser than about the appraisee.⁸⁰

The study on glass ceiling among women in top management concluded that “all else being equal, an evaluator will provide a lower performance evaluation to a female subordinate with stronger competence signals compared to a female subordinate with weaker competent signals.”⁸¹ In other words, the

better a female employee is, in terms of her actual performance and her educational and work experience, the more likely it is that she'll be rated lower.

Is that possible? Unfortunately, based on this study, yes. Not all evaluators were prone to this negative bias. Only “male evaluators who are high on SDO [those inclined to be socially dominant] and evaluating a high-performing female subordinate appear to be prone.”⁸² But unless employers guard against such bias, they could be condoning biased promotion and pay decisions against some of their highest-performing and highest-potential employees.

Bias is one reason to use multiple raters, to have the supervisor's boss review ratings, and/or to have “calibration” meetings where supervisors explain among themselves the appraisals they gave.⁸³ ■

The Need for Fairness

So, due to either the supervisor's ineptness or the appraisal method's inherent unfairness, many appraisals are unfair. The employees' standards should be clear, employees should understand the basis on which you're going to appraise them, and the appraisal should be objective.⁸⁴ Give the employee an opportunity to express his or her opinions.

In practice, the quality of the interpersonal relationship between the supervisor and employee will shape the appraisal's impact. Supervisors should be trained in both the technical and interpersonal aspects of appraising employees and giving feedback.⁸⁵ They should understand how to build trust, engage in continuous performance conversations, diagnose and productively address performance issues, and deliver and react to feedback constructively.⁸⁶ To facilitate this, the employer should evaluate supervisors partly based on their effectiveness in managing performance.⁸⁷

Figure 9-10 lists best practices for ensuring fair appraisals. Table 9-3 summarizes each appraisal method's pros and cons.



KNOW YOUR EMPLOYMENT LAW

Appraising Performance

The performance appraisal often plays a role in employment lawsuits, such as when employees claim that they were fired for poor performance in violation of an implied contract, or claim they were defamed during or in an appraisal.⁸⁸

FIGURE 9-10 Checklist of Best Practices for Administering Fair Performance Appraisals

- Base the performance review on duties and standards from a job analysis.
- Try to base the performance review on observable job behaviors or objective performance data.
- Make it clear ahead of time what your performance expectations are.
- Use a standardized performance review procedure for all employees.
- Make sure whoever conducts the reviews has frequent opportunities to observe the employee's job performance.
- Either use multiple raters or have the rater's supervisor evaluate the appraisal results.
- Include an appeals mechanism.
- Document the appraisal review process and results.
- Discuss the appraisal results with the employee.
- Let the employees know ahead of time how you're going to conduct the reviews.
- Let the employee provide input regarding your assessment of him or her.
- Indicate what the employee needs to do to improve.
- Train the supervisors who will be doing the appraisals. Make sure they understand the procedure to use, how problems (like leniency and strictness) arise, and how to deal with them.

TABLE 9-3 Important Advantages and Disadvantages of Appraisal Tools

Tool	Advantages	Disadvantages
Graphic rating scale	Simple to use; provides a quantitative rating for each employee.	Standards may be unclear; halo effect, central tendency, leniency, bias can also be problems.
BARS	Provides behavioral “anchors.” BARS is very accurate.	Difficult to develop.
Alternation ranking	Simple to use (but not as simple as graphic rating scales). Avoids central tendency and other problems of rating scales.	Can cause disagreements among employees and may be unfair if all employees are, in fact, excellent.
Forced distribution method	End up with a predetermined number or % of people in each group.	Employees’ appraisal results depend on your choice of cutoff points.
Critical incident method	Helps specify what is “right” and “wrong” about the employee’s performance; forces supervisor to evaluate subordinates on an ongoing basis.	Difficult to rate or rank employees relative to one another.
MBO	Tied to jointly agreed-upon performance objectives.	Time-consuming.

Similarly, courts often find that inadequate appraisal systems lie at the root of illegal discriminatory actions, such as in cases concerning layoffs, discharges, or merit pay.⁸⁹ Performance Appraisal results were contested in Indian courts. The Supreme Court of India, in Pankaj Prakash V/s United India Assurance company (2019) reiterated that the Performance Appraisal results (grades or scores) have to be directly communicated to the public service employee. In case of non-communication, the employee has right to raise a grievance.⁹⁰

Steps to ensure your appraisals are legally defensible include the following:

- Base the appraised duties and criteria on a job analysis.
- Give performance standards to employees in writing, or institute a robust goal setting process with clearly specified Key Result Areas (KRAs) and Key Performance Indicators (KPIs)/Performance Expectations.
- Don’t just give a single overall rating; appraise several dimensions (quality, quantity, etc.) and have a system to combine these.
- One appraiser should never have absolute authority to determine a personnel action.
- Document everything.⁹¹
- Train supervisors. At least provide raters with written instructions on how to use the rating scale.
- Finally, to help minimize the discriminatory effects of performance appraisal, “treat everyone in exactly the same way.”⁹² ■

LEARNING OBJECTIVE 9-4

List steps to take in the appraisal interview.

Managing the Appraisal Interview/Discussions

Periodic appraisals typically culminate in an **appraisal interview or discussion**. Here the manager and the subordinate review the appraisal and make plans to remedy deficiencies and reinforce strengths. These interviews are often uncomfortable. Few people like to receive—or give—negative feedback. Adequate preparation and effective implementation are essential. Supervisors face four types of appraisal situations, each with its unique objectives:⁹³

- *Satisfactory—Promotable* is the easiest interview: The person's performance is satisfactory and promotion looms. Your objective is to develop specific development plans.
- *Satisfactory—Not promotable* is for employees whose performance is satisfactory but for whom promotion is not possible. The objective here is to maintain satisfactory performance. The best option is usually to find incentives that maintain performance, such as extra time off, a small bonus, or recognition.
- When the person's performance is *unsatisfactory but correctable*, the interview objective is to lay out an action/development plan for correcting the unsatisfactory performance.
- Finally, the interview where the employee is *unsatisfactory* and the situation is *uncorrectable* may be particularly tense. Negative action, including separation is often the usual option.

How to Conduct the Appraisal Interview

Useful interviews begin before the interview. Beforehand, review the person's job description, compare performance to the standards, and review previous appraisals. Give the employee a week's notice to review his or her work. Set a time for the interview. Interviews with lower-level personnel like clerical workers should take less than an hour. Interviews with management employees often take 1 or 2 hours. Conduct the interview privately with no interruptions.

An effective interview requires effective coaching skills. Coaching doesn't mean telling someone what to do. Instead, it is a process.⁹⁴ *Preparation* means understanding the problem and the employee. Here the manager will watch the employee at work to see what he or she is doing, review productivity data, and observe the workflow.

Planning the solution is next. This requires reaching agreement on the problem, and laying out a change plan in the form of *steps to take*, *measures of success*, and *date to complete*.

With agreement on a plan, the manager can start the *actual coaching*. One writer says, "An effective coach offers ideas and advice in such a way that the subordinate can hear them, respond to them, and appreciate their value."⁹⁵ Useful guidelines include the following:

1. **Talk in terms of objective work data.** Use examples such as absences, tardiness, and productivity.
2. **Don't get personal.** Don't say, "You're too slow producing those reports." Instead, compare the person's performance to a standard. ("These reports should normally be done within 10 days.") Similarly, don't compare the person's performance to that of other people. ("He's quicker than you are.")

3. **Encourage the person to talk.** Stop and listen to what the person is saying; ask open-ended questions (such as, “What do you think we can do to improve the situation?”). Use a command such as “Go on.” Restate the person’s last point as a question, as in, “You don’t think you can get the job done?”
4. **Get agreement.** Make sure the person leaves knowing specifically what he or she is doing right and doing wrong, and with agreement on how things will be improved, and has an action plan with targets and dates.

MAKE IT A DIALOGUE Whether subordinates express satisfaction with the appraisal interview depends on their not feeling threatened, having an opportunity to present their feelings, and being able to influence the course of the interview.

How to Handle a Defensive Subordinate

When a supervisor tells someone his or her performance is poor, the first reaction is often denial. Denial is a defense mechanism. By denying the fault, the person avoids having to question his or her own competence.

Therefore, dealing with defensiveness is an important appraisal skill. In his book *Effective Psychology for Managers*, psychologist Mortimer Feinberg suggests the following:

1. Recognize that defensive behavior is normal.
2. Never attack a person’s defenses. Don’t try to “explain someone to themselves” (as in, “You know the reason you’re using that excuse is that you can’t bear to be blamed.”). Instead, concentrate on the fact (“sales are down”).
3. Postpone action. Sometimes it’s best to do nothing. Employees may react to sudden threats by hiding behind their defenses. Given sufficient time, a more rational reaction takes over.
4. Recognize your limitations. The supervisor is (probably) not a psychologist. Offering understanding is one thing; trying to deal with psychological problems is another.

How to Criticize a Subordinate

When necessary, criticize in a manner that lets the person maintain his or her dignity—in private, and constructively. Provide examples of critical incidents and specific suggestions. Avoid once-a-year “critical broadsides” by giving feedback periodically, so that the formal review contains no surprises. Never say the person is “always” wrong. Criticism should be objective and free of personal bias.

When the employee is not doing well, the manager will have to decide how candid to be. Former GE CEO Jack Welch once said it’s cruel to tell someone who’s mediocre that their work is satisfactory.⁹⁶ Someone who might have changed course may instead waste years in a dead-end job, only to be dismissed when a more demanding boss arrives.

Some managers do take a hard line. Not all employees are salvageable, and not all managers will spend time trying to overcome an employee’s faults. For example, when one Netflix manager requested a performance improvement plan for a worker, the then-head of HR said basically, “Don’t waste your time.”

Her position was, why waste time coaching this person if she'll probably never do the job right anyway?⁹⁷

On the other hand, many employers are now emphasizing praise over criticism. One tells its managers not to touch on more than two areas that need improvement but instead to emphasize subordinates' strengths. Most *Fortune* 500 companies use the Gallup StrengthsFinder tool (www.gallup-strengthscenter.com) to help employees identify and build on their strengths. Facebook has used StrengthsFinder to help train supervisors in a style that better fits its mostly Millennial-aged staff. It would seem that to attract, motivate, and retain today's new employees, a less critical appraisal approach may be advisable.⁹⁸

GET AGREEMENT ON A DEVELOPMENTAL PLAN The aim of the appraisal should be to improve unsatisfactory performance (and/or to reinforce exemplary performance) as well as build on strengths. The appraisal should therefore result in a plan (Figure 9-11) for what the employee must do to improve his or her efforts. IDP (Individual Development Plan) or PAP (Personal Action Plan) are terms used for the plans. Unfortunately, these are often associated by employees with poor performance or a step before dismissal.

How to Handle a Written Warning

The employee's performance may be so weak that it requires a written warning. Such warnings serve two purposes: (1) to shake your employee out of his or her bad habits, and (2) to help you defend your rating to your own boss and (if needed) to the courts.

FIGURE 9-11 Sample Employee Development Plan

SAMPLE EMPLOYEE DEVELOPMENT PLAN: Employee's Name			
Employee's main objectives for this period:	Did employee fully achieve objective (include rating from appraisal form, from Poor to Outstanding)?	What training or other actions are required for improved performance on this objective?	Completion dates:
1.			
2.			
3.			
4.			
5.			
Employee Signature <i>Copyright Gary Dessler, PhD</i>		Manager Signature _____	

Written warnings should list the employee's standards, make it clear that the employee was aware of the standard, specify any deficiencies relative to the standard, and show that the employee had an opportunity to correct his or her performance.

Figure 9-12 provides an appraisal interview checklist.

Appraisal Interview Checklist

Interview Item: Did you	Yes	No
1. Review the employee's job description, previous appraisals, goals, and current job standards prior to the interview?		
2. Provide adequate time and a private, cordial, non-threatening environment for the interview?		
3. Focus your discussion and comments on objective work data?		
4. Encourage the appraisee to talk (restate last comment as a question, etc.), and make it clear you are listening (nod, etc.)?		
5. Give the appraisee an opportunity to fully present his or her ideas and feelings?		
6. Consciously avoid attacking the appraisee's defenses?		
7. Criticize in a way that allowed the appraisee to maintain his or her dignity?		
8. Discuss your evaluation of each of the appraisee's job duties and/or goals?		
9. Reach agreement on the training and development required to improve the appraisee's performance?		
10. Discuss, as appropriate, the steps the employer may take if improvement goals are not met?		
11. Discuss the appraisee's performance in light of his or her career aspirations?		

Source: Copyright Gary Dessler, PhD.

LEARNING OBJECTIVE 9-5

Explain key points in how to use the appraisal interview or discussions to boost employee engagement and performance.

Employee Engagement Guide for Managers

Use the Appraisal Interview to Build Engagement

Managers can use the appraisal interview to improve their employees' engagement. Here are relevant findings and implications.

1. Employees who understand how they and their departments contribute to the company's success are more engaged.⁹⁹ Therefore, *take the opportunity to show the employee how his or her efforts contribute to the "big picture"—to his or her team's and the company's success.*
2. Another study found that employees' engagement rose when they experienced what the researchers called "psychological meaningfulness" (namely, the perception that one's role in the organization is worthwhile and valuable).¹⁰⁰ *Use the interview to emphasize the meaningfulness to the company of what the employee is doing.*
3. Employees who experience "psychological safety" (the perception that it's safe to bring oneself to a role without fear of damage to self-image, status, or career) were more engaged.¹⁰¹ A study by Gallup among

Indian employees about PMS highlight that while Indian employees respect processes and procedure, their engagement levels are impacted by trust between members of a work group.¹⁰² Therefore, *be candid and objective but do so supportively and without unnecessarily undermining the employee's self-image.*¹⁰³

4. Efficacy drives engagement, so use the interview to make sure your employee *has what he or she needs* to do a good job.¹⁰⁴
5. Managers should be candid and honest, but don't unnecessarily emphasize the negatives. Doing so undermines employee engagement. In one survey, Gallup asked about 1,000 U.S. employees to respond to two statements: "My supervisor focuses on my strengths or positive characteristics" and "My supervisor focuses on my weaknesses or negative characteristics." It found that about three times more employees whose *managers focused on strengths* were engaged, compared with those who focused on weaknesses.¹⁰⁵
6. Involvement in decision making and letting employees voice their opinions improve employee engagement.¹⁰⁶ Use the interview as an opportunity to *show your employees that you listen to their ideas and value their contributions.*
7. Engagement rises when employees have an opportunity to improve their careers.¹⁰⁷ During the interview discuss the person's evaluation *in the context of where he or she sees himself or herself heading career-wise.*¹⁰⁸
8. Research shows "a significant positive association between (1) distributive [what rewards people get] and informational [what information they get] justice dimensions, and (2) employee engagement."¹⁰⁹ Bottom line: *Make sure that the interviewee views the appraisal and the rewards or remedial actions as fair.*



LEARNING OBJECTIVE 9-6

Explain how you would take a performance management approach to appraisal.

Performance Management

Performance appraisal is fine in theory, but in practice appraisals don't always go smoothly. Goals aren't set, the "appraisal" is a form from an office supply store, and the yearly feedback, if any, may be agonizing, with both participants fleeing before any coaching takes place. This runs counter to common sense. Employees should know what their goals are, performance feedback should be useful, and if there is a problem, the time to take action is right away, not 6 months later.

Total Quality Management and Performance Appraisal

Management experts have long argued that most performance appraisals neither motivate employees nor guide their development.¹¹⁰ Some proponents of the total quality management (TQM) movement even argued for eliminating performance appraisals altogether.¹¹¹ *Total quality management* (TQM) programs are organizationwide programs that integrate all functions and processes of the business such that all aspects of the business including design, planning, production, distribution, and field service are aimed at maximizing customer satisfaction through continuous improvements.¹¹² TQM programs are built on a philosophy encapsulated by several principles, such as: cease dependence on inspection to achieve quality; aim for continuous improvement; institute extensive training; drive out fear so that everyone may work effectively; remove barriers that rob employees of their pride of workmanship

(in particular, the annual merit rating); and institute a vigorous program of self-improvement.¹¹³ Basically, TQM advocates argue that the organization is a system of interrelated parts, and that employees' performance is more a function of things like training, communication, tools, and supervision than of their motivation.

What would performance appraisal look like in such a company? Visitors to Toyota Motor's Lexington, Kentucky, Camry plant would find such a system. Teams of employees monitor their own results, generally without managers' interventions. In frequent meetings, the team members continuously align those results with the work team's standards and with the plant's overall quality and productivity goals. Team members who need coaching and training receive it. Procedures that need changing are changed.

What Is Performance Management?

That is performance management in action. In comparing performance management and performance appraisal, "the distinction is the contrast between (1) a year-end event (the completion of the appraisal form) and (2) a process that starts the year with performance planning and is integral to the way people are managed throughout the year."¹¹⁴ **Performance management** is the *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's *goals*.¹¹⁵ We can summarize performance management's six basic elements as follows:¹¹⁶

performance management

The *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's *goals*.

- **Direction sharing** means communicating the company's goals to all employees and then translating these into departmental, team, and individual goals.
- **Goal alignment** means having a method that enables managers and employees to *see the link* between the employees' goals and those of their department and company.
- **Ongoing performance monitoring** usually means computerized systems to continuously measure the team's and/or employee's progress toward meeting performance goals.
- **Ongoing feedback** means providing face-to-face and computerized continuous feedback regarding progress toward goals.
- **Coaching and developmental support** should be part of the feedback process.
- **Recognition and rewards** should provide incentives to keep the employee's goal-directed performance on track.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Employers often use technology to support performance management. For example, with Oracle's TBE Performance Management Cloud Service, performance management involves:

- First, *assign financial and nonfinancial goals* (goals that support the company's overall strategic goals) to each team's activities. For example, an airline might measure ground crew aircraft turnaround time in terms of "improve turnaround time to 26 minutes per plane this year."
- Second, *inform all teams and employees* of their goals.

- Next, *use technology* (cloud-based performance management software, HR scorecards, and digital dashboards) to continuously display, monitor, and assess each team's and employee's performance (see Figure 9-12). Oracle TBE Performance Management Cloud Service illustrates this.¹¹⁷ Because the goals are “in the cloud” rather than printed in documents, managers needn't wait until the annual or semiannual reviews to revise them. And the system's portable dashboards enable managers to continuously monitor each team or employee's performance, let employees update progress toward goal achievement, and let employees and managers log comments so the process is real-time and interactive. For more details, see www.oracle.com/taleo-tbe.
- Finally, if exceptions are noted, *take corrective action* before things swing out of control. ■

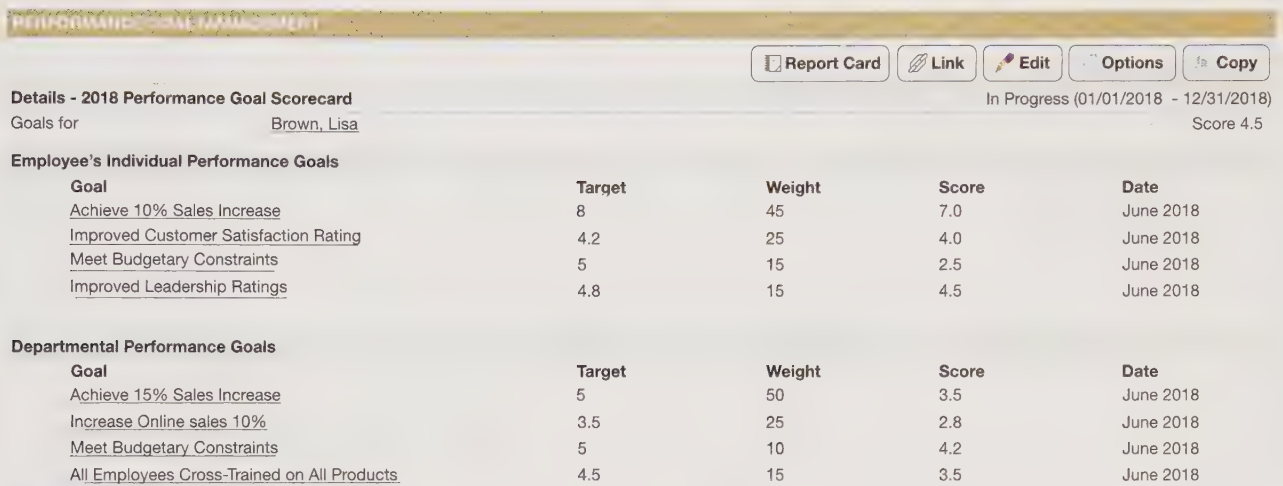


FIGURE 9-12 Summary of Performance Management Report

Source: Based on “Personal Goal Management” from the Active Strategy Website. Copyright © 2012 by ActiveStrategy, Inc.

Performance Management in Action

The trend today is to provide real-time feedback on performance.¹¹⁸ For example, GE began using a smart phone app it calls PD@GE to let supervisors assess employees continuously rather than once a year.¹¹⁹ IBM Corp. introduced a new app-based performance review it calls Checkpoint.¹²⁰ It allows for more continuous monitoring of performance and feedback.

Goldman Sachs still uses annual reviews, but added a new system through which employees also get continuous feedback. Goldman also compiles 360-degree feedback on its employees. Morgan Stanley no longer uses numerical appraisal ratings, instead emphasizing qualitative feedback.¹²¹

“Performance management” doesn’t mean a company can’t be tough. For many years, Kimberly-Clark Corp. was reportedly known for lifetime employment and for retaining even underperforming employees. Then it instituted a new performance management system, including continuous online performance reviews to carefully track employees’ performance relative to their goals. Turnover is up dramatically.¹²²

The Strategic Context feature shows how one company developed a performance management system to support its strategy.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Deloitte's New Performance Management Process¹²³

The mission of Deloitte LLP and Deloitte U.S. LLP is to deliver results that are quantifiable and enduring. For a company that provides complex audit and consulting services to many of America's largest companies, delivering "enduring results" requires an effective performance management system.

Yet while the frequent subjective feedback at the heart of performance management is laudable, many performance management systems suffer from one calamitous weakness: at the end of the day, the employer needs a way to differentiate among employees and to make hard-nosed pay raise and promotional decisions; Any performance management process that can't do that isn't very practical.

THE PROBLEM Deloitte's managers knew they could improve their performance management system. Many questioned whether the system improved performance. They knew traditional performance ratings often said more about the manager's personality than about the employee's performance. Furthermore, with 65,000 employees, Deloitte was devoting two *million* hours per year to appraisals. And the appraisals focused more on history than on how to improve employees' performance. Management decided to change the process.

THE NEW GOALS The team creating the new performance management process set three goals: first, it should *recognize employee performance*, particularly in terms of bonuses; second, the new process should *clearly reflect employee performance*. Third, the new process should *energize performance*, by monitoring performance often enough so that employees could improve their performance during their assignments. (In any year, a Deloitte employee may be assigned to one or more teams working on assignments [such as an audit], for a particular client project.)

THE NEW PERFORMANCE MANAGEMENT PROCESS Deloitte's new performance management process has several features. First, each team member *interacts with his or her team leader periodically* during the assignment, to get frequent feedback on how the employee is doing and how to improve.

Second, at the end of the assignment, rather than the team leaders just presenting their opinions about how the employee performed, the team leader provides an "employee performance snapshot" by reporting on how the team leader *plans to act* regarding the employee, specifically: (1) From what I know about this person's performance, if it were my money, here is how I would compensate this person; (2) based on what you know about this person's performance, would you want this person on your team again; (3) do you think this person's performance is such that it might harm the customer or the team; and (4) would you say this person is ready for promotion today?

Then, at the end of the year, Deloitte compiles all these assignment "snapshots" *in a year-end evaluation*. That evaluation, plus input from a team leader who knows the employee's performance personally, determines the employee's compensation.

The Manager's Role in Performance Management

Technology isn't mandatory for managers who want to take a performance management approach. What is mandatory is having the right managerial philosophy and on-the-job behaviors. As a philosophy, performance management reflects nonthreatening TQM principles such as cease dependence on inspection to achieve quality, aim for continuous improvement, institute extensive training, and drive out fear so that everyone may work effectively. The manager's behaviors should therefore include linking employees' goals to the company's

goals, giving employees continuous feedback, providing required resources and coaching, rewarding good performance, and remembering that employees' performance reflects more than just whether they're "motivated."¹²⁴

HR in Action at the Hotel Paris Both Lisa and the firm's CFO were concerned by the current disconnect between (1) what their current appraisal process was focusing on and (2) what the company wanted to accomplish in terms of its strategic goals. They wanted the firm's new performance management system to help breathe life into the firm's strategic performance. To see what they did, read the case page 348 of this chapter.

Chapter Review

Chapter Section Summaries

- 9-1. **Performance appraisal** means evaluating an employee's current or past performance relative to his or her performance standards. Managers appraise their subordinates' performance to obtain input on which promotion and salary raise decisions can be made, to develop plans for improving strengths correcting performance deficiencies, and for career-planning purposes. Supervisory ratings are still at the heart of most appraisal processes.
- 9-2. The appraisal is generally conducted using one or more popular **appraisal methods or tools**. These include graphic rating scales, alternation ranking, paired comparison, forced distribution or bell curve, critical incidents, behaviorally anchored rating scales, MBO, computerized performance appraisals, and electronic performance monitoring.
- 9-3. The appraisal process can be improved by eliminating chronic **problems** that often undermine appraisals and graphic rating scales in particular. These problems include unclear standards, halo effect, central tendency, leniency or strictness, and bias.
- 9-4. An appraisal typically culminates in an **appraisal interview/discussions**. Adequate preparation (including giving the subordinate notice, reviewing his or her job description and past performance, choosing the right place for the interview, and leaving enough time for it) is essential.
- 9-5. The manager can use the appraisal interview to improve the employees' level of **engagement**. For example, show the employee how his or her efforts contribute to the team's and the company's success; use the interview to emphasize the meaningfulness to the company of what the employee is doing; and emphasize support rather than threats.
- 9-6. **Performance management** is the *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's *goals*. It means continuous interactions and feedback to ensure continuous improvement in the employee's and team's capacity and performance. Most important, it requires remembering that your employee's performance usually reflects more than just whether he or she is "motivated."

Discussion Questions

- 9-1. What is the purpose of a performance appraisal?
- 9-2. Answer the question, "Who should do the appraising?"
- 9-3. Discuss the pros and cons of four performance appraisal tools.
- 9-4. Explain how you would use the alternation ranking method, the paired comparison method, and the forced distribution method.

9-5. Explain in your own words how you would go about developing a behaviorally anchored rating scale.

9-6. Explain the problems to be avoided in appraising performance.

9-7. Compare and contrast performance management and performance appraisal.

Individual and Group Activities

9-8. Working individually or in groups, develop a graphic rating scale for the following jobs: secretary, professor, bus driver.

9-9. Working individually or in groups, describe the advantages and disadvantages of using the forced distribution appraisal method for college professors.

9-10. Working individually or in groups, develop, over the period of a week, a set of critical incidents covering the classroom performance of one of your instructors.

9-11. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates

to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

9-12. When he was doing his show *The Apprentice*, Donald Trump often told apprentices "You're fired!" Review recent (or archived) episodes of Donald Trump's *The Apprentice* and answer this: What performance appraisal system did Mr. Trump use, and do you think it resulted in valid appraisals? What techniques discussed in this chapter did he seem to apply? How would you suggest he might change his appraisal system to make it more effective?

Experiential Exercise

Grading the Professor

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Purpose: The purpose of this exercise is to give you practice in developing and using a performance appraisal form.

Required Understanding: You are going to develop a performance appraisal form for an instructor and should therefore be thoroughly familiar with the discussion of performance appraisals in this chapter.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students.

9-13. First, based on what you now know about performance appraisal, do you think Figure 9-1 is an effective scale for appraising instructors? Why or why not?

9-14. Next, your group should develop its own tool for appraising the performance of an instructor. Decide which of the appraisal tools (graphic rating scales, alternation ranking, and so on) you are going to use, and then design the instrument itself.

9-15. Next, have a spokesperson from each group post his or her group's appraisal tool on the board. How similar are the tools? Do they all measure the same factors? Which factor appears most often? Which do you think is the most effective tool on the board?

9-16. The class should select the top ten factors from all of the appraisal tools presented to create what the class perceives to be the most effective tool for appraising the performance of the instructor.



Application Case

Appraising the Secretaries at Sweetwater U

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Rob Winchester, newly appointed vice president for administrative affairs at Sweetwater State University, faced a tough problem shortly after his university career began. Three weeks after he came on board in September, Sweetwater's president, Rob's boss, told Rob that one of his first tasks was to improve the appraisal system used to evaluate secretarial and clerical performance at Sweetwater U. The main difficulty was that the performance appraisal was traditionally tied directly to salary increases given at the end of the year. Therefore, most administrators were less than accurate when they used the graphic rating forms that were the basis of the clerical staff evaluation. In fact, what usually happened was that each administrator simply rated his or her clerk or secretary as "excellent." This cleared the way for them to receive a maximum pay raise every year.

But the current university budget simply did not include enough money to fund another "maximum" annual raise for every staffer. Furthermore, Sweetwater's president felt that the custom of providing invalid feedback to each secretary on his or her year's performance was not productive, so he had asked the new vice president to revise the system. In October, Rob sent a memo to all administrators, telling them that in the future no more than half the secretaries reporting to any particular administrator could be appraised as "excellent." This move, in effect, forced each supervisor to begin ranking his or her secretaries for quality of performance. The vice president's memo met widespread resistance immediately—from administrators, who were afraid that many of their secretaries would begin leaving for more lucrative jobs, and from secretaries, who felt that the new system was unfair and reduced each secretary's chance of receiving a maximum salary increase. A handful of secretaries had begun picketing outside the president's home on the university campus. The picketing, caustic remarks by disgruntled administrators, and rumors of an impending slowdown by the secretaries (there were about 250 on campus) made Rob Winchester wonder whether he had made the right decision by setting up forced ranking. He knew, however, that there were a few performance appraisal experts in the School of Business, so he decided to set up an appointment with them to discuss the matter.

He met with them the next morning. He explained the situation as he had found it: The current appraisal system had been set up when the university first opened 10 years earlier. A committee of secretaries had developed it. Under that system, Sweetwater's administrators filled out forms similar to the one shown in Table 9-2. This once-a-year appraisal (in March) had run into problems almost immediately because it was apparent from the start that administrators varied widely in their interpretations of job standards, as well as in how conscientiously they filled out the forms and supervised their secretaries. Moreover, at the end of the first year it became obvious to everyone that each secretary's salary increase was tied directly to the March appraisal. For example, those rated "excellent" received the maximum increases, those rated "good" received smaller increases, and those given neither rating received only the standard across-the-board cost-of-living

increase. Because universities in general—and Sweetwater, in particular—have paid secretaries somewhat lower salaries than those prevailing in private industry, some secretaries left in a huff that first year. From that time on, most administrators simply rated all secretaries excellent in order to reduce staff turnover, thus ensuring each a maximum increase. In the process, they also avoided the hard feelings aroused by the significant performance differences otherwise highlighted by administrators.

Two Sweetwater experts agreed to consider the problem, and in 2 weeks they came back to the vice president with the following recommendations. First, the form used to rate the secretaries was grossly insufficient. It was unclear what "excellent" or "quality of work" meant, for example. They recommended instead a form like that in Figure 9-2. In addition, they recommended that the vice president rescind his earlier memo and no longer attempt to force university administrators to arbitrarily rate at least half their secretaries as something less than excellent. The two consultants pointed out that this was unfair, since it was quite possible that any particular administrator might have staffers who were all or virtually all excellent—or conceivably, although less likely, all below standard. The experts said that the way to get all the administrators to take the appraisal process more seriously was to stop tying it to salary increases. In other words, they recommended that every administrator fill out a form as in Figure 9-2 for each secretary at least once a year and then use this form as the basis of a counseling session. Salary increases would have to be made on some basis other than the performance appraisal, so that administrators would no longer hesitate to fill out the rating forms honestly.

Rob thanked the two experts and went back to his office to ponder their recommendations. Some of the recommendations (such as substituting the new rating form for the old) seemed to make sense. Nevertheless, he still had serious doubts as to the efficacy of any graphic rating form, particularly compared with his original, preferred forced ranking approach. The experts' second recommendation—to stop tying the appraisals to automatic salary increases—made sense but raised at least one very practical problem: If salary increases were not to be based on performance appraisals, on what were they to be based? He began wondering whether the experts' recommendations weren't simply based on ivory tower theorizing.

Questions

- 9-17. Do you think that the experts' recommendations will be sufficient to get most of the administrators to fill out the rating forms properly? Why or why not? What additional actions (if any) do you think will be necessary?
- 9-18. Do you think that Vice President Winchester would be better off dropping graphic rating forms, substituting instead one of the other techniques we discussed in this chapter, such as a ranking method? Why or why not?
- 9-19. What performance appraisal system would you develop for the secretaries if you were Rob Winchester? Defend your answer.

Continuing Case

Carter Cleaning Company

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The Performance Appraisal

After spending several weeks on the job, Jennifer was surprised to discover that her father had not formally evaluated any employee's performance for all the years that he had owned the business. Jack's position was that he had "a hundred higher-priority things to attend to," such as boosting sales and lowering costs, and, in any case, many employees didn't stick around long enough to be appraisable anyway. Furthermore, contended Jack, manual workers such as those doing the pressing and the cleaning did periodically get positive feedback in terms of praise from Jack for a job well done, or criticism, also from Jack, if things did not look right during one of his swings through the stores. Similarly, Jack

was never shy about telling his managers about store problems so that they, too, got some feedback on where they stood.

This informal feedback notwithstanding, Jennifer believes that a more formal appraisal approach is required. She believes that there are criteria such as quality, quantity, attendance, and punctuality that should be evaluated periodically even if a worker is paid on piece rate. Furthermore, she feels quite strongly that the managers need to have a list of quality standards for matters such as store cleanliness, efficiency, safety, and adherence to budget on which they know they are to be formally evaluated.

Questions

- 9-20. Is Jennifer right about the need to evaluate the workers formally? The managers? Why or why not?
- 9-21. Develop a performance appraisal method for the workers and managers in each store.

Translating Strategy into HR Policies and Practices Case[§]

Improving Performance at the Hotel Paris

The New Performance Management System

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate appraisal policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

Lisa knew that the Hotel Paris's performance appraisal system was inadequate. When the founders opened their first hotel, they went to an office-supply store and purchased a pad of performance appraisal forms. The hotel chain used these. Each form was a two-sided page. Supervisors indicated whether the employee's performance in terms of various standard traits including quantity of work, quality of work, and dependability was excellent, good, fair, or poor. Lisa knew that, among other flaws, this appraisal tool did not force either the employee or the supervisor to focus the appraisal on the extent to which the employee was helping the Hotel Paris to achieve its strategic goals. She wanted a system that focused the employee's attention on taking those actions that would contribute to helping the company achieve its goals, for instance, in terms of improved customer service.

Both Lisa and the firm's CFO were concerned by the current disconnect between (1) what the current appraisal process was focusing on and (2) what the company wanted to accomplish in terms of its strategic goals. They wanted the firm's new performance management system to help breathe life into the firm's strategic performance, by focusing employees' behavior specifically on the performances that would help the Hotel Paris achieve its strategic goals.

Lisa and her team created a performance management system that focused on both competencies and objectives. In designing the new system, their starting point was the job descriptions they had created for the hotel's employees. These descriptions each included required competencies. Consequently, using a form similar to Figure

9-3, the front-desk clerks' appraisals now focus on competencies such as "able to check a guest in or out in 5 minutes or less." Most service employees' appraisals include the competency, "able to exhibit patience and guest support of this even when busy with other activities." There were other required competencies. For example, the Hotel Paris wanted all service employees to show initiative in helping guests, to be customer oriented, and to be team players (in terms of sharing information and best practices). Each of these competencies derives from the hotel's aim of becoming more service oriented. Each employee now also receives one or more strategically relevant objectives for the coming year. (One, for a housecleaning crewmember, said, "Martha will have no more than three room cleaning infractions in the coming year," for instance.)

In addition to the goals- and competencies-based appraisals, other Hotel Paris performance management forms laid out the development efforts that the employee would undertake in the coming year. Instructions also reminded the supervisors that, in addition to the annual and semiannual appraisals, they should continuously interact with and update their employees. The result was a comprehensive performance management system: The supervisor appraised the employee based on goals and competencies that were driven by the company's strategic needs. And, the actual appraisal resulted in new goals for the coming year, as well as in specific development plans that made sense in terms of the company's and the employees' needs and preferences.

Questions

- 9-22. Choose one job, such as front-desk clerk. Based on any information you have (including job descriptions you may have created in other chapters), write a list of duties, competencies, and performance standards for that chosen job.
- 9-23. Based on that, and on what you read in this Dessler *Human Resource Management* chapter, create a performance appraisal form for appraising that job.

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Key Terms

performance appraisal, 316
 performance appraisal process, 316
 graphic rating scale, 321
 alternation ranking method, 323

paired comparison method, 323
 forced distribution method, 323
 critical incident method, 324

behaviorally anchored rating scale (BARS), 324
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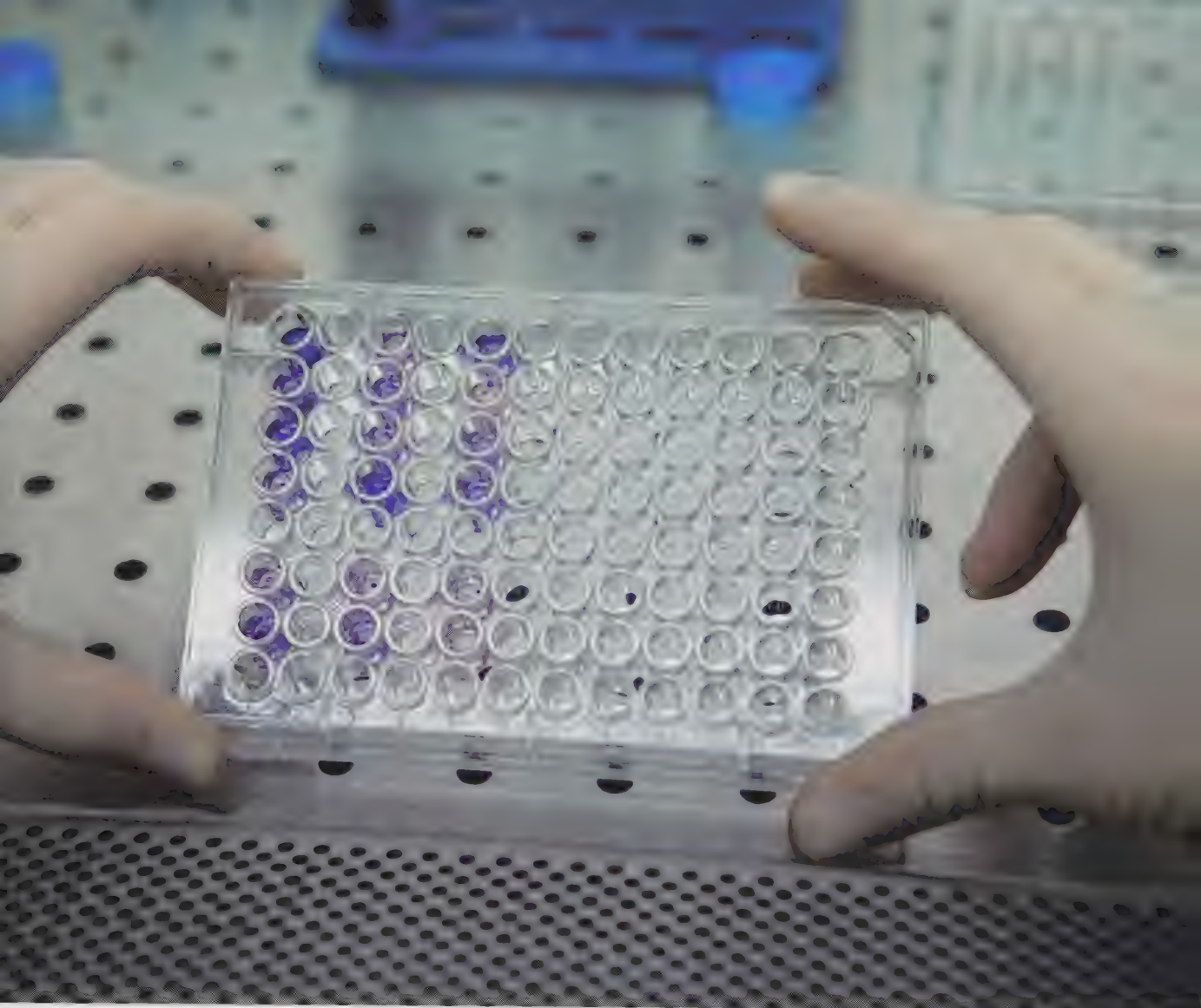
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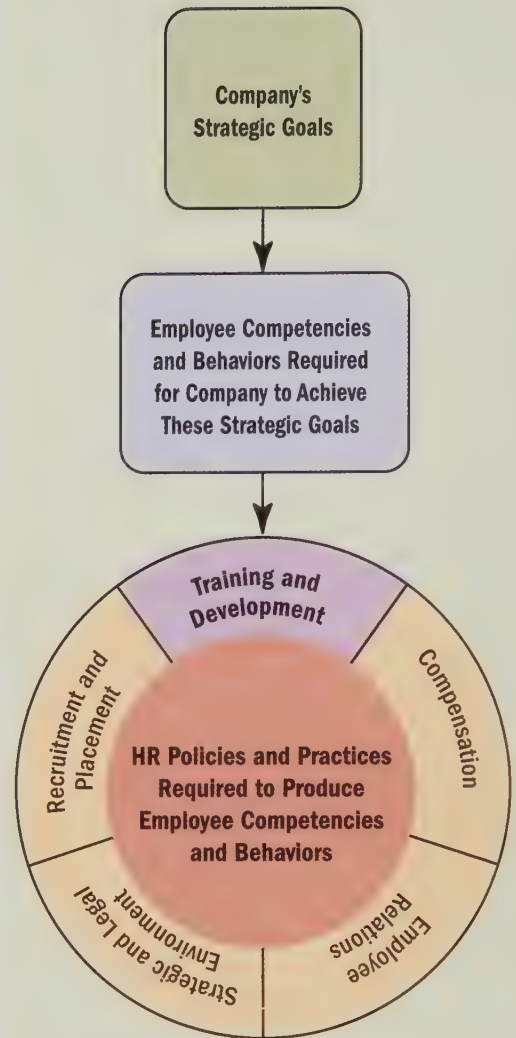
Managing Careers and Retention

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 10-1** **Discuss** what employers and supervisors can do to support employees' career development needs.
- 10-2** **Explain** why career development can improve employee engagement.
- 10-3** **Describe** a comprehensive approach to retaining employees.
- 10-4** **List and briefly explain** the main decisions employers should address in reaching promotion and other employee life-cycle career decisions.
- 10-5** **Explain** each of the main grounds for dismissal.

Zydus Cadilla is a leading manufacturer and marketer of pharmaceutical products in India and abroad. In 2014, the ZyNext 2020 initiative was launched to make the company future ready. Multiple HR activities were launched, under which qualified and engaged employees were required to achieve the firm's ambitious growth plans. Zydus Cadilla's management takes talent development very seriously. We will see how companies like Zydus do this.



WHERE ARE WE NOW . . .

Having invested in selecting, training, and appraising employees, the employer of course wants them to want to stay with the firm. The main purpose of this chapter is to explain how to support your employees' career development needs and improve employee retention. The main topics we'll address are **Career Management, Improving Employee Engagement Through Career Management, Managing Employee Turnover and Retention, Employee Life-Cycle Management, and Managing Dismissals.**



LEARNING OBJECTIVE 10-1

Discuss what employers and supervisors can do to support employees' career development needs.

Career Management

After appraising performance, it's often necessary to address career-related issues and to discuss these issues with subordinates.

The traditional role of personnel activities like screening, training, and appraising is to staff the company with employees who have the requisite interests, abilities, and skills. Often, however, many employers also use human resource management activities to help their employees realize their full career potential.¹ They do this not just because they think that it's the right thing to do, but because hopefully everyone gains—the employees with more fulfilling careers, and the employer with improved employee relations, engagement, and retention. We'll address career planning and related topics in this chapter.

Before proceeding, we should define important terms we will be using throughout this chapter. We may define **career** as the occupational positions a person holds over the years. **Career management** is the process for enabling employees to better understand and develop their career skills and interests and to use these skills and interests most effectively both within the company and after they leave the firm. **Career development** is the lifelong series of activities (such as workshops) that contribute to a person's career exploration, establishment, success, and fulfillment. **Career planning** is the deliberate process through which someone becomes aware of personal skills, interests, knowledge, motivations, and other characteristics; acquires information about opportunities and choices; identifies career-related goals; and establishes action plans to attain specific goals.

career

The occupational positions a person has had over many years.

career management

The process for enabling employees to better understand and develop their career skills and interests, and to use these skills and interests more effectively.

career development

The lifelong series of activities that contribute to a person's career exploration, establishment, success, and fulfillment.

career planning

The deliberate process through which someone becomes aware of personal skills, interests, knowledge, motivations, and other characteristics and establishes action plans to attain specific goals.

HR in Action at the Hotel Paris If the Hotel Paris wanted satisfied guests, they had to have engaged employees who did their jobs as if they owned the company, even when the supervisor was nowhere in sight. But for the employees to be engaged, Lisa knew the Hotel Paris had to make it clear that the company was also committed to its employees. To see what they did, see the case on page 383 of this chapter.

Careers Today

People once viewed careers as a sort of upward stairway from job to job, more often than not with one or a few firms. Today, many people do still move up, but many (or most) find themselves having to reinvent themselves. For example, the sales rep, laid off by a publishing firm that's just merged, may reinvent her career as an account executive at a media-oriented advertising firm.²

Careers today differ in other ways from a few years ago. With many more women pursuing professional and managerial careers, families must balance the challenges associated with dual-career pressures. What people want from their careers is changing too. Baby boomers—those retiring in the next few years—tended to be job- and employer-focused. People entering the job market now often covet opportunities for more balanced work–family lives.

The Psychological Contract

One implication is that what employers and employees expect from each other is changing. What the employer and employee expect of each other is part of what psychologists call a *psychological contract*. This is “an unwritten agreement that exists between employers and employees.”³ The psychological contract identifies each party's mutual expectations. For example,

the unstated agreement is that management will treat employees fairly and provide satisfactory work conditions, hopefully in a long-term relationship. Employees are expected to respond “by demonstrating a good attitude, following directions, and showing loyalty to the organization.”⁴

The problem is that with today’s labor markets, neither the employer nor the employee can count on long-term commitments from each other. In India too, research has pointed to a shift from traditional expectations and obligations from both sides, specifically of employees towards the organization. The emerging psychological contract will be dynamic in nature, and Indian organizations must be ready for a ‘New Deal’.⁵ That changes the psychological contract, and makes career management more critical for the employee, who may have to prepare for the time that he or she must move on. One Indian study involving employees and functional heads shows that culture influences psychological contracts, and that employees and their supervisors differ in their understanding of mutual obligations.⁶ Another study of Indian CPD (cutting and polishing of diamonds) industry shows that firms which retained or supported employees during recession, could later benefit from it.⁷ Hence, Indian organizations need to move beyond focusing on compensation (which is important), and include relationship and growth variables.

The Employee’s Role in Career Management

The employee, the manager, and the employer all have roles in the employee’s career development. For example, the manager should provide timely and objective performance feedback, offer developmental assignments and support, and have career development discussions with the employee. He or she should act as a coach, appraiser, advisor, and mentor, listening to and clarifying the employee’s career plans, giving feedback, generating career options, and linking the employee to organizational resources and career options. For its part, the employer should provide career-oriented training, development, and promotional opportunities, offer career information and career programs, and give employees a variety of career options.

Ultimately, however, the employee is responsible for his or her own career. He or she must assess interests, skills, and values; seek out career information resources; and take steps to ensure a happy and fulfilling career. For the employee, career planning means matching individual strengths and weaknesses with occupational opportunities and threats. In other words, the person wants to pursue occupations, jobs, and a career that capitalize on his or her interests, aptitudes, values, and skills. The person also wants to choose occupations, jobs, and a career that make sense in terms of projected future demand for occupations. Ideally, he or she should think through an ideal future “self” to strive for.⁸

As one example, career-counseling expert John Holland says that personality (including values, motives, and needs) is an important career choice determinant. For example, a person with a strong social orientation might be attracted to careers that entail interpersonal rather than intellectual or physical activities and to occupations such as social work. Holland found six basic personality types or orientations. For a nominal fee, individuals can use his Self-Directed Search (SDS) test (available online at www.self-directed-search.com) to assess their occupational orientations and preferred occupations. The SDS has an excellent reputation, but one study of 24 no-cost online career assessment websites concluded that they were easy to use but suffered from

insufficient validation and confidentiality. However, a number of online career assessment instruments such as Career Key (www.careerkey.org) reportedly provide validated and useful information.⁹ In India, two portals—Employment News (www.employmentnews.gov.in) and National Career Service Portal (www.ncs.gov.in) of the Union Ministry of Labor and Employment provide free information about careers and opportunities. Many private agencies and research portals (like www.paycheck.in) also provide related information. You will find other useful career tools in the following two exercises, and in this chapter's appendix.

EXERCISE 1 One useful exercise for identifying occupational skills is to head a page “The School or Occupational Tasks I Most Enjoyed Doing.” Then write a short essay describing the tasks. Provide as much detail as you can about your duties and responsibilities, and what you found enjoyable about each task. (It’s not necessarily the most enjoyable *job* you’ve had, but the most enjoyable *task* you’ve had to perform within your jobs.) Next, on other pages, do the same thing for two other tasks. Now scrutinize the three essays. Underline the skills that you mentioned the most often. For example, did you especially enjoy the hours you spent on the Internet doing research when you worked one summer as an intern?¹⁰

EXERCISE 2 Another exercise can prove enlightening. On a page, answer the question: “If you could have any kind of job, what would it be?” Invent your own job if need be, and don’t worry about what you *can* do—just what you want to do.¹¹

■ HR AND THE GIG ECONOMY: THE PORTFOLIO CAREER

portfolio careers

Careers based on using one’s skills to create a livelihood from multiple income sources, often from several jobs paying different rates.

More people today—especially Millennials and Generation X-ers—are embracing **portfolio careers**, careers based on using one’s skills to create a livelihood from multiple income sources, often from several jobs paying different rates.¹² For example, someone might use her marketing skills for temporary marketing manager gigs, her writing and marketing skills to write a column and blog, and her coaching skills to teach online courses.

Are Portfolio Careers for you?

Millions of people support themselves through portfolio careers today, and each is probably doing so for his or her own reasons—from just wanting to be independent, to not finding a full-time job, or needing flexibility for family matters.

DO YOU HAVE WHAT IT TAKES TO DO THIS? There are some questions to ask yourself. For example, are you comfortable not having the same job to go to every day; are you good at juggling several different big tasks; and do you have the social and salesmanship skills to get out and line up a continually changing cast of clients? And of course, what saleable skills do you have for which someone will pay you?

IS IT PRACTICAL? Think it through first. Ask yourself who your potential clients are, how much you might earn, and what the odds are you’ll be able to put it all together. Bounce your ideas off friends, and talk with them about which ideas seem more likely to succeed. (On the other hand, “nothing ventured, nothing gained,” so don’t be too practical! One benefit of portfolio careers is that you can make adjustments as you learn.)

The Employer's Role in Career Management

Along with the employee, the person's manager and employer have career management responsibilities. These depend partly on how long the employee has been with the firm.

For example, *before hiring*, realistic job interviews can help prospective employees more accurately gauge whether the job is a good fit for them. Especially for recent college graduates, *the first job* can be crucial for building confidence and a more realistic picture of what he or she can and cannot do: providing challenging first jobs and having an experienced mentor who can help the person learn the ropes are important. Some refer to this as preventing **reality shock**, a phenomenon that occurs when a new employee's high expectations and enthusiasm confront the reality of a boring, unchallenging job. Periodic *job rotation* can help the person develop a more realistic picture of what he or she is good at, and thus the career moves that might be best. Thus, Intuit offers new graduates entrée into its Rotational Development Programs.¹³ These are 2-year programs in which employees first learn about Intuit's products, customers, employees, strategies, and values. Next the employees complete four 6-month rotations, getting experience in a range of Intuit business units and a variety of functions, for instance, product management, marketing, and human resources. All Rotational Development Program participants are paired with an executive advisor, who provides career coaching and mentoring.

Finally, we will see that once the person has been *on the job* for a while, career-oriented appraisals are important. Here the manager not only appraises the employee but also uses the results to help the person to match his or her strengths and weaknesses with a feasible career path. For a number of reasons, employees may exit from formal career paths, and in India, many of them find it difficult to re-enter. Hindustan Unilever Limited (HUL), for instance, has initiated a program called 'Career by Choice'. It is especially tailored for female job seekers who were on a break in their careers due to various reasons such as marriage, child rearing, and taking care of their families.¹⁴ Similarly, the Tata Group offers Tata SCIP or Second Careers Inspiring Possibilities (www.tatasecondcareers.com) that provides women a platform to re-enter formal jobs. These programs give an opportunity to women to start back, if required, on a part-time basis.

reality shock

Results of a period that may occur at the initial career entry when the new employee's high job expectations confront the reality of a boring or otherwise unattractive work situation.



Employer Career Management Methods

Employers including AFLAC, American Express, and Accenture recognize that it pays to help employees improve their careers. In a study of four Indian multinational firms (i.e., of Tata Motors, Infosys, Biocon, and ITC), a distinct preference for home-grown talent was observed. While the firms were developing global level operating competences and international careers for local employees, they also had to manage careers of international employees working with them.¹⁵ For example, American Express opened several career counseling centers for its call-center workers, and both Genentech and AFLAC hired career counselors, and are better preparing their line managers to give career advice.¹⁶ Google has employees who volunteer to act as career coaches and mentors for other employees, and who Google officially designates "career gurus." In one year, over 1,000 Google employees (Googlers) used the gurus' services.¹⁷

Self-help e-learning tools appear to be the most popular employer-provided career services, followed by career assessment and feedback, and on-site training.¹⁸ Such tools—which help users work through career information and instructional resources themselves—are especially useful when users want to improve their careers, and where guidance counseling is available if questions arise.¹⁹

A *career planning workshop* is “a planned learning event in which participants are expected to be actively involved, completing career planning exercises and inventories and participating in career skills practice sessions.”²⁰ A typical workshop includes self-assessment exercises (skills, interests, values, and so on), an assessment of important occupational trends, and goal-setting and action-planning segments.

Career coaches generally help employees create 1- to 5-year plans showing where their careers with the firm may lead. Then, the employer and employee base the latter’s development plans on what he or she needs to move up.²¹ The coaches help individual employees identify their development needs and to obtain the training, professional development, and networking opportunities that they require to satisfy those needs.

Career development systems needn’t be complicated. Even just receiving performance feedback from supervisors, having individual development plans, and having access to training is enough for many employees. Beyond that, job postings, formal career-oriented performance appraisals, formal counseling and mentoring with managers, and individual succession planning for high-potential employees are valuable.²² Figure 10-1 illustrates a simple employee career planning form.



IMPROVING PERFORMANCE: THROUGH HRIS

Integrating Talent Management and Career and Succession Planning

The employer should endeavor to integrate its career planning with its other HR activities efforts. As one example, an employee’s career planning and development plans should reflect his or her performance appraisal ratings and training plans. Similarly, as explained in Chapter 5 (pages 138–139), succession plans should reflect employees’ career interests.

Integrated talent management software helps to achieve such coordination. For example, Halogen Succession enables the employer to “identify the skills and competencies required to support your 3- to 5-year strategic plans and cultivate these in your high-potential employees with career and development planning.”²³ ■



Diversity Counts: Toward Career Success

People with disabilities tend to have less career success than do those without disabilities.²⁴ Some barriers may be self-imposed. For instance, some with disabilities may have lower career expectations, or may not proactively seek the accommodations they are due under Indian laws (Rights for Persons with Disabilities Act, 2015), though Indian labor legislations are not explicit about the disabled in workplaces. However, the government of India has devised schemes for training/skill development of the disabled. These are Deendayal Disabled Rehabilitation Scheme (DDRS) for the up-gradation of vocational

Employee's Name	Employee's Current Position	Today's Date
I Performance Summary: <i>Briefly discuss this employee's performance over the past year (or other period), in terms of his or her achievement of assigned goals, effectiveness at interacting with colleagues, and any other criteria you believe are relevant here:</i>		
II Strengths: <i>Based on your evaluation and experience with and discussions with employee, what would you say are his or her main strengths?</i>		
III Career Aspirations and Goals: <i>Based on your experience with and discussions with employee, what would the two of you agree should be this person's career goals over the next 1-3 years and beyond?</i>		
IV Areas for Development: <i>Based on what you know about this employee, what would the two of you agree are the main areas for development he or she should concentrate on over the next year or two?</i>		

Development Objectives and Activities: *Planned to achieve this person's career goals.*

Development Activities	Specific Action Plans	Milestones/Dates
1		
2		
3		
4		
5		

Signatures: Supervisor _____ Employee _____

FIGURE 10-1 Employee Career Development Plan

Source: Copyright Gary Dessler, PhD.

training; skill training in identified national institutes; and financial support to state governments under the Scheme for Implementation of Persons with Disabilities (SPIDA).

However, the problem more often reflects unfortunate assumptions and actions by managers and coworkers. Though well meaning, they may view those with disabilities as unable to perform various jobs, negatively evaluate them as being poor occupational fits, and assume that jobs designed for those without disabilities are inappropriate for those with disabilities. Figure 10-2 presents some positive strategies for people with disabilities. ■

The Manager as Mentor and Coach

Do not underestimate the impact that a supervisor can have on his or her employee's career development. With little or no additional effort than realistic performance reviews and candid career advice, a competent supervisor can help the employee get on and stay on the right career track. At the other extreme, an unsupportive supervisor may look back on years of having inhibited his or her employees' career development. In a study of world-class leaders, one researcher says that his big surprise was the extent to which they engaged in "ongoing, intensive one-on-one tutoring" of their subordinates.²⁵

The manager can do several things to support subordinates' career development needs. When the subordinate first starts, help the person develop the skills required to do the job well. Schedule regular performance appraisals, and address whether the person's skills and performance are consistent with his or her career aspirations. Indian companies are also expecting managers to be coaches to their subordinates. Dr Reddy's Laboratories considers a manager's commitment to leadership and coaching as one of the six leadership competencies. For senior level roles, including Indian family-owned companies, hiring external coaches is preferred for training purposes. Traditionally, guidance or advice from elder was considered enough; however, with growing business complexity, formal coaching is welcomed.²⁶ Ask questions such as

FIGURE 10-2 Career Guideline Suggestions for Those with Disabilities

Source: Career management strategies of people with disabilities. *Human Resource Management*, May–June 2014 (53)3, pp. 455–456. Reprinted by permission from John Wiley & Sons, Inc. Cleared via Copyright Clearance Center.

Strategy	Key Import of Strategy
Espousing a positive mind-set and demonstrating extreme persistence	Overcome worries and focus on tasks at hand
Sensitizing people to ability over disability: • Signaling ability by learning new skills • Signaling ability by helping coworkers through newly gained skills • Signaling ability by trying to enhance performance through feedback seeking	Trounce stereotypes regarding competence
Engaging in disability advocacy: • Awareness building • Influencing organizational policymaking with regard to accommodation	Sensitize others to performance potential of all PWD and help all PWD perform
Building, leveraging, and contributing to relevant networks: • Forming networks comprising PWD • Seeking mentors who have a disability • Serving as role models or mentors to other PWD	Aid general adjustment and career growth of self and other PWD

mentoring

Advising, counseling, and guiding.

coaching

Educating, instructing, and training subordinates.

“In terms of career, what are you interested in doing, in both the short- and long-term?”²⁷ Provide the employee with at least an informal development plan like that in Figure 10-1. Keep subordinates informed about the firm’s current career-related benefits, and encourage them to use them.²⁸

Here the manager may act as mentor. **Mentoring** means having experienced senior people advising, counseling, and guiding employees’ longer-term career development. An employee who agonizes over which career to pursue or how to navigate office politics may need mentoring.

Mentoring may be formal or informal. Informally, mid- and senior-level managers may voluntarily help less-experienced employees—for instance, by giving them career advice and helping them to navigate office politics. Many employers also have formal mentoring programs. For instance, the employer may pair protégés with potential mentors, and provide training to help mentor and protégé better understand their respective responsibilities. Studies show that having a mentor give career-related guidance and act as a sounding board can enhance one’s career satisfaction and success.²⁹

For the supervisor, mentoring is both valuable and risky. It is valuable insofar as you can influence in a positive way the careers of your less-experienced subordinates and colleagues. The danger is that it can backfire. **Coaching** focuses on teaching daily tasks that you can easily relearn, so coaching’s downside is usually limited. *Mentoring* focuses on relatively hard-to-reverse longer-term career issues, and often touches on the person’s psychology (motives, and how one gets along with others, for instance). Because the supervisor is usually not a psychologist or trained career advisor, he or she must be cautious in the mentoring advice he or she gives.

Research on what supervisors can do to be better mentors reveals few surprises. Effective mentors *set high standards*, are willing to *invest the time* and effort the mentoring relationship requires, and actively *steer protégés* into important projects, teams, and jobs. They *model* the right behaviors, and *motivate and inspire* those they’re mentoring.³⁰ Effective mentoring requires *trust*, and the level of trust reflects the mentor’s *professional competence, consistency, ability to communicate*, and readiness to *share control*.³¹

However, studies suggest that traditional mentoring is less effective for women than it is for men. For example, in one survey of employees who had “active mentoring relationships” in one year, 72% of the men received one or more promotions in the ensuing 2 years, compared with 65% of the women. A CEO or other senior executive mentored 78% of the men, compared with 69% of the women.³²

Some employers therefore assign female employees to mentors who have more organizational clout. For example, when Deutsche Bank discovered that several female managing directors had left the firm for better jobs at competitors, it began pairing them with mentor/sponsors from the bank’s executive committee. The latter were in a position to advocate the women for promotion. Mentoring Indian managers, particularly women, has to be viewed in the cultural context as well. It is necessary that mentors is favorable. While a male mentor can help break traditional glass ceilings and decode dimensions of organizational culture, women mentors can act as role models.³³

LEARNING OBJECTIVE 10-2

Explain why career development can improve employee engagement.

Employee Engagement Guide for Managers

Career Management

As mentioned earlier in this chapter, labor market turbulence has understandably prompted many people to ask why they should be loyal to their employers. “Why,” they might ask, “should I be loyal to you if you’re just going to dump me when you decide to cut costs again?” Employers today therefore have to think through how they’re going to maintain employee engagement, and thereby minimize voluntary departures, and maximize employee effort.

Commitment-Oriented Career Development Efforts

Given the importance to most people of a fulfilling and successful career, career planning and development can play an important role in employee engagement. Managed effectively, the employer’s career development process should send the signal that the employer cares about the employee’s career success. As mentioned earlier, this doesn’t necessarily have to be complicated. For example, performance appraisals provide an easy opportunity to link the employee’s performance, career interests, and developmental needs into a coherent career plan. With *career-oriented appraisals*, the supervisor and employee jointly merge the latter’s past performance, career preferences, and developmental needs into a formal career plan.

Such appraisals needn’t be automated but online systems are available. For example, Halogen eAppraisal™ helps the manager to identify employee development activities that are appropriate given the employee’s developmental needs and career preferences. The employer then organizes development activities around the person’s needs.

The JCPenney Management Career-Grid approach provides another good example of what is possible (although tumultuous management changes several years ago sidelined much of this effort). Prior to the annual appraisal, the associate and his or her manager reviewed Penney’s career grid. The grid listed all supervisory positions at Penney (grouped by operation jobs, merchandise jobs, personnel jobs, and general management jobs); it also included specific job titles such as “regional catalog sales manager.” The firm also provided thumbnail job descriptions for all the grid’s jobs.

The grid also identified typical promotional routes. For example, when considering the next assignment for a management associate, the supervisor could consider not only merchandise positions but also operations and personnel positions. Promotional projections could cross all four groups, as well as one or two job levels. For example, a senior merchandising manager might be projected for promotion to either assistant buyer or general merchandise manager. In sum, Penney’s grid approach shows how employers can use a

IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Career Development at Medtronic³⁴

Medtronic is a global medical technology company with more than 85,000 employees around the world. The company offers a wide range of career planning and development support tools aimed at helping employees understand their occupational strengths and weaknesses and reach their potential. These tools include customized development plans, self-assessment and feedback tools, mentoring programs, comprehensive on-site classes covering business, engineering, and science topics, tuition reimbursement scholarships, and online job listings so the employee can seek out new career opportunities within the company.

In addition, new MBA employees can participate in Medtronic's corporate Leadership Development Rotation Program. This is a 2- to 3-year program. It includes 12- to 18-month assignments in two different geographic locations, thus providing participants with both a broad understanding of Medtronic, and in-depth functional experiences. Functional tracks include clinical, corporate development, finance, and human resources, for instance.

In addition to their job assignments, participants engage in other developmental experiences including peer mentoring programs, functional training, and leadership workshops. Among other things, candidates for this program are required to have 3 to 5 years of professional and relevant work experience and an MBA (or other masters-level degree as appropriate) and to be mobile and willing to pursue opportunities abroad.

career-oriented appraisal process to guide the employee and manager to focus on the former's strengths, weaknesses, and career prospects and plans.³⁵

Other employers use special training and development programs to facilitate their employees' career development. The accompanying HR Practices Around the Globe feature provides an example.



LEARNING OBJECTIVE 10-3

Describe a comprehensive approach to retaining employees.

Managing Employee Turnover and Retention

Not all employees' career plans will coincide with the company's needs. *Turnover*—the rate at which employees leave the firm—varies markedly among industries. For example, turnover in the accommodation and food services industry is very high, with over half the industry's employees voluntarily leaving each year. Traditionally, the IT/ITES and the Banking and Finance (BSFI) sectors in India have seen very high employee turnover. A global study even placed India at the top of the world chart, with one in four employees changing jobs in 2013.³⁶ However, another study by Aon Hewitt in 2016 indicated that overall attrition was at five-year low in India, and it was the lowest since the financial crisis in 2009.³⁷ In contrast, voluntary turnover in educational services is about 12%.³⁸

Furthermore, such figures only reflect employees who leave voluntarily. They don't include involuntary separations, such as for poor performance.³⁹ Combining voluntary and involuntary turnover produces some astounding statistics. For example, the turnover in many food service firms is around 100% per year. In other words, many restaurants need to replace just about all their employees every year! Turnover is expensive, as the HR as a Profit Center discussion shows.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Turnover and Performance

What is the link between turnover and organizational performance? One study analyzed the costs of turnover in a call center with 31 agents and 4 supervisors.⁴⁰ Tangible costs associated with an agent's leaving included the costs of recruiting, screening, interviewing, and testing applicants, as well as the cost of wages while the new agent was oriented and trained. Intangible costs included the cost of lost productivity for the new agent (who is less productive at first), the cost of rework for the new agent's errors, and the supervisory cost for coaching the new agent. The researchers estimated the cost of an agent

leaving at about \$21,551. This call center averaged 18.6 vacancies per year (about a 60% turnover rate). Therefore, the researchers estimated the total annual cost of agent turnover at \$400,853. Taking steps to cut this turnover rate in, say, half could save this firm about \$200,000 per year. The bottom line is that HR practices can have a big influence on employee turnover, and thereby on the company's profitability. ■

Reducing turnover requires identifying and managing the reasons for both voluntary and involuntary turnover.⁴¹ We address managing voluntary turnover here, and managing involuntary turnover later in the chapter.

Managing Voluntary Turnover

In reducing turnover, the logical place to start is by measuring the number of employees (particularly top performers and high potentials) who leave the company.⁴² SHRM U.S. recommends computing turnover as follows: "First calculate turnover for each month by dividing the number of [voluntary] separations during the month by the average number of employees during that month and multiplying by 100. Then calculate the annual turnover rate by adding the 12 months of turnover percentages together."⁴³

However, identifying *why* employees voluntarily leave isn't so easy. People dissatisfied with their jobs are more likely to leave, but the sources of dissatisfaction are many. In one survey, the five top reasons that top-performing employees gave for leaving (ranked from high to low) were pay, promotional opportunities, work-life balance, career development, and health-care benefits.⁴⁴ Another survey of employees based on exit interviews found the top five reasons employees left were, career development (22%), work-life balance (12%), management behavior (11%), compensation and benefits (9%), and well-being (9%).⁴⁵ Of those who left due to "career development," most said they didn't like the work they were doing, while others blamed lack of growth and development.⁴⁶ In another study job motivation, social support, and burnout correlated with turnover intentions.⁴⁷ Other reasons employees leave include unfairness, not having their voices heard, and lack of recognition.⁴⁸

Practical considerations also affect turnover. For example, high unemployment reduces voluntary turnover, and some locales have fewer job opportunities (and thus turnover). Furthermore, losing low-performing employees isn't as problematic as losing high-performing ones. The restaurant chain Applebee's gives managers incentives for reducing turnover of top-performing employees.⁴⁹

In any case, given the many things prompting employees to leave, what can one do to reduce voluntary turnover? We'll discuss some tactics, but there is no silver bullet. The manager should understand that retaining employees is a talent management issue, and that the best retention strategies are therefore multifunctional. For example, employees who aren't interested in their jobs, sense that they're not suited for their jobs, or feel undercompensated are more likely to leave. Employers can address such issues only by instituting effective and coordinated talent management (recruitment, selection, training, appraisal, and compensation) practices. Put another way, turnovers (both voluntary and involuntary) often start with poor selection decisions, compounded by inadequate training, insensitive appraisals, and inequitable pay. Trying to formulate a "retention strategy" without considering all HR practices is futile.

A Comprehensive Approach to Retaining Employees

However, identifying problems is an important first step. Effectively conducted *exit interviews* provide useful insights into turnover problem areas. Many employers routinely administer *attitude surveys* to monitor employees about matters such as supervision and pay. Sometimes simply asking, “All things considered, how satisfied are you with your job?” can be as effective as soliciting employees’ attitudes toward various facets of the job (such as supervision and pay).⁵⁰ Open-door policies and anonymous “*hotlines*” help management identify and remedy morale problems. Usually conducted by the employee’s manager, the aim of a *stay interview* is to head off retention problems by finding out “how the employee is doing.” Typical questions include, “When you travel to work each day, what are you looking forward to?” and “How can I best support you?” Unlike anonymous group surveys, stay interviews are one on one, and reportedly provide useful information for reducing turnover and improving engagement.⁵¹ Sometimes, analyzing the situation leads to simple solutions. Walmart discovered it could significantly reduce voluntary turnover by providing aggressively *realistic previews* about the job’s demands and work hours.⁵² Then, having identified potential problems, the employer can take steps like the following to boost employee retention.

RAISE PAY The most obvious explanation for why employees quit is often also the correct one: low pay. Particularly for high performers and key employees, enhanced pay has been the retention tool of choice for many employers.⁵³

HIRE SMART “Retention starts up front, with the selection and hiring of the right employees.”⁵⁴ This refers not just to the worker but also to hiring the right supervisors. For example, FedEx conducts periodic employee attitude surveys. The supervisor then meets to review the results with his or her employees to address any leadership problems the surveys raise.

DISCUSS CAREERS One expert says, “Professionals who feel their company cares about their development and progress are much more likely to stay.”⁵⁵ Periodically discuss with employees their career preferences and prospects, and help them lay out career plans.⁵⁶

PROVIDE DIRECTION People can’t do their jobs if they don’t know what to do or what their goals are. Therefore, retaining employees requires making it clear what your expectations are regarding their performance and what their responsibilities are.

OFFER FLEXIBILITY In one survey, workers identified “flexible work arrangements” and “telecommuting” as the two top benefits that would encourage them to choose one job over another.

USE HIGH-PERFORMANCE HR PRACTICES In one study, call centers that made more use of high-involvement work practices (for instance, employee empowerment, problem-solving groups, and self-directed teams) had lower rates of quits, dismissals, and total turnover. So did those that “invested” more in employees (for instance, in terms of promotion opportunities, high relative pay, pensions, and full-time jobs).⁵⁷

COUNTEROFFER? If a valued employee says he or she is leaving, should you make a counteroffer? Many argue against doing so, calling it a “Band-Aid for a head wound.”⁵⁸ Employers who do allow counteroffers need a policy that specifies what people and positions are eligible for counteroffers, allowable compensation enhancements, and how to determine the offer.⁵⁹



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Digital and social media tools can improve the employee retention process. Software company SAS’s employee-retention program sifts through employee data on traits like skills, tenure, performance, education, and friendships. It can predict which high-value employees are more likely to quit in the near future (allowing SAS to try to head that off).⁶⁰ Alliant Techsystems created a “flight risk model” to calculate the probability an employee would leave and to take corrective action.⁶¹ Based on its analysis of previous survey results, Google’s “Googlegeist” survey contains five questions aimed at identifying Googlers who are more likely to leave; if a team’s responses fall below 70% favorable, Google knows to take corrective action.⁶² Websites such as Globoforce (www.globoforce.com) enable each employee’s colleagues to comment on and to recognize and reward the person’s contributions. Vendors assert this leads to “dramatic improvements in employee engagement, retention and measurable adoption of corporate culture.”⁶³ ■

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Fresh Thyme Farmers Market

Strategic human resource management means formulating HR policies and practices that produce the employee skills and behaviors the company needs to achieve its strategic aims. Fresh Thyme’s strategy is to offer fresh, local, organic foods, with about half of each store devoted to fresh produce.⁶⁴ Its employees are evangelists about getting customers to eat healthy. What sorts of people does Fresh Thyme want to recruit and hire, and what do they do to retain them?

A company that sells “health and awareness” needs employees who enjoy engaging with customers, particularly about fresh and healthy foods. It helps that fast growth means big opportunities for employees. Fresh Thyme also works hard to develop its employees’ careers. For example, it offers extensive training, from “bagging 101,” to finance courses for managers. The point is Fresh Thyme has an integrated set of recruitment, selection, training, and career development practices that support its “fresh and healthy” strategy while also supporting employee retention.

Job Withdrawal

Unfortunately, voluntary turnover is just one way that employees withdraw. Withdrawal in general means separating oneself from one’s current situation—it’s a means of escape for someone who is dissatisfied or fearful. At work, *job withdrawal* has been defined as “actions intended to place physical or psychological distance between employees and their work environments.”⁶⁵

Absences and voluntary turnover are two obvious types of job withdrawal. Others can be less obvious if no less corrosive. Some examples include “taking undeserved work breaks, spending time in idle conversation and neglecting

aspects of the job one is obligated to perform.”⁶⁶ Other employees stop “showing up” mentally (“psychological withdrawal”), perhaps daydreaming at their desks while productivity suffers.⁶⁷ The employee is there, but mentally absent. In fact, the *job withdrawal process* tends to be incremental, often evolving from daydreaming to absences to quitting: “When an employee perceives that temporary withdrawal will not resolve his/her problems, then the employee is apt to choose a more permanent form of withdrawal (i.e., turnover, assuming that alternative work opportunities are available).”⁶⁸

Studies confirm the high costs of job withdrawal, so understanding its causes is important.⁶⁹ Absenteeism is a serious problem in Indian industries. Organizations, managers, and the government have examined this issue at different health checkups, involving families, and good employment relations. Another way to ensure absent control is planning leaves and breaks in advance. Many Indian firms also offer attractive financial and non-financial incentives (e.g., additional payment, compensatory leave, organizing celebrations within the company, etc.) to control mass absenteeism during festival and harvest seasons, when significant number of employees return to their villages.⁷⁰ Many people have experienced the desire to withdraw—to “get away” from some situation—so it’s perhaps not difficult to empathize with those who feel they must escape. Some think of it in terms of pain versus pleasure. People tend to move toward situations that make them feel good, and away from those that make them feel bad.⁷¹ People are repelled by situations that produce unpleasant, uncomfortable emotions, and are attracted to those that produce pleasant, comfortable ones.⁷²

The manager can therefore think of withdrawal-reducing strategies in terms of reducing the job’s negative effects, and/or of raising its positive effects. Because potential negatives and positives are virtually limitless, addressing withdrawal problems again requires a comprehensive human resource management approach.⁷³ Illustrative potential negatives include, for instance, boring jobs, poor supervision, low pay, bullying, lack of career prospects, and poor working conditions. Potential positives include job enrichment, supportive supervision, equitable pay/family-friendly benefits, disciplinary/appeals processes, career development opportunities, safe working conditions, and high-morale colleagues.⁷⁴ Interviews, surveys, and observation can help identify issues to address.

With more employees taking their jobs home via smart phones and iPads, employee “detachment” (not withdrawal) isn’t always a bad thing. Two researchers found detaching oneself from work improves family life. They advise working out a system for ensuring some quality family time. For example, the employee and his or her partner might “agree on certain rules such as keeping the weekend free of work, or switching off the mobile phone after dinner.”⁷⁵

LEARNING OBJECTIVE 10-4

List and briefly explain the main decisions employers should address in reaching promotion and other employee life-cycle career decisions.

Employee Life-Cycle Career Management

An employee’s tenure with a firm tends to follow a life cycle, from employment interview to first job, promotion, transfer, and perhaps retirement. We’ll look here at the latter three.



promotion

Advancement to a position of increased responsibility.

Making Promotion Decisions

Promotions traditionally mean advancements to positions of increased responsibility.

Promotions are important. They're obviously a good way to reward performance. Furthermore, hiring outsiders has become more expensive. By one estimate, it now costs about 36% more to hire new employees than it did a few years ago. (This is partly due to more job openings, and partly because the gig economy diverts many potential hires to working on their own). The bottom line is that employers need well thought-out promotion practices and policies. For example, unfairness or secrecy about why people get promoted can devalue the promotion process. An effective promotion strategy therefore includes effective promotion from within systems and practices, making more promotions available, and ensuring that your employees are as aware of their own company's job openings as they are of other companies'.⁷⁶

Also address how to handle those *not* promoted.⁷⁷ In one study, military officer training candidates *not* promoted were more likely to engage in counterproductive work behaviors (such as verbal and physical aggression, property theft, and sleeping on duty) than were those who were promoted.



Establish Clear Guidelines for Managing Promotions

Crucial promotion-related decisions include the following.

DECISION 1: IS SENIORITY OR COMPETENCE THE RULE? In setting promotion policies, one decision is whether to base promotion on seniority or competence, or some combination of the two.

Today's focus on performance favors competence. However, this depends on several things. Union agreements sometimes contain clauses emphasizing seniority. Civil service regulations that stress seniority often govern promotions in many public-sector organizations.

DECISION 2: HOW SHOULD WE MEASURE COMPETENCE? If the firm opts for competence, it must define and measure competence. Defining and measuring *past* performance is relatively straightforward. But promotions should also rest on procedures for predicting the candidate's future performance.

For better or worse, most employers use prior performance as a guide, and assume that (based on exemplary prior performance) the person will do well on the new job. Many use tests or assessment centers, or tools such as the 9-Box Grid (Chapter 8, page 258), to evaluate promotable employees and identify those with executive potential.

For example, given the public safety issues involved, police departments tend to be very systematic when evaluating candidates for promotion to command positions. For the police, traditional promotion reviews include a written knowledge test, an assessment center, time-in-grade (for example, candidates for police captain in Little Rock, Arkansas, need a minimum 5 years as police officer, 2 years as sergeant, and 2 years as lieutenant before applying for promotion to captain),⁷⁸ a score based on recent performance appraisal ratings, and a personnel records review. The latter includes evaluation of supervisory-related education and experience, ratings from multiple sources, and systematic evaluation of behavioral evidence.⁷⁹

DECISION 3: IS THE PROCESS FORMAL OR INFORMAL? Many firms have informal promotion processes. They may or may not post open positions, and key managers may use their own unpublished promotion criteria. Here employees (and courts) may conclude that factors like “who you know” are more important than performance, and that working hard to get ahead—at least in this firm—is futile.

Other employers set formal promotion policies and procedures. Employees receive a *formal promotion policy* describing the criteria by which the firm awards promotions. A *job posting policy* states the firm will post open positions and their requirements, and circulate these to all employees. As explained in Chapter 5 (Personnel Planning and Recruiting), many employers also maintain *employee qualification databanks* and use replacement charts and computerized employee information systems to assist in such planning.

DECISION 4: VERTICAL, HORIZONTAL, OR OTHER? Promotions aren’t necessarily upward. Thus, some employees, such as engineers, may have little or no interest in promotion to managerial roles.

Several options are available. Some firms, such as the exploration division of British Petroleum (BP), create two parallel career paths, one for managers and another for “individual contributors” such as high-performing engineers. At BP, individual contributors can move up to nonsupervisory senior positions, such as “senior engineer.” These jobs have most of the financial rewards attached to management-track positions at that level.

Another option is to move the person horizontally. For instance, a production employee may move to human resources to develop his or her skills and to test and challenge his or her aptitudes. In a sense, “promotions” are possible even when leaving the person in the same job. For example, you might enrich the job and provide training to enhance the opportunity for assuming more responsibility.

In any case, there are practical steps to take in formulating promotion policies.⁸⁰ Establish eligibility requirements, for instance, in terms of minimum tenure and performance ratings. Require the hiring manager to review the job description, and revise if necessary. Vigorously review all candidates’ performance and history. Preferably promote only those who meet the job’s requirements. And reach out to employees who may have aspired to a promotion but who were not yet ready to be promoted. To paraphrase Google’s chief HR officer, doing so is far better than having them quit or withdraw.⁸¹



Diversity Counts: The Gender Gap

Women constitute more than 45% of the workforce, but hold less than 2% of top management positions. Blatant or subtle discrimination may account for much of this. In one study, promoted women had to receive higher performance ratings than promoted men to get promoted, “suggesting that women were held to stricter standards for promotion.”⁸² Women report greater barriers (such as being excluded from informal networks) than do men, and have more difficulty getting developmental assignments. Many employers obstruct women’s promotional prospects from the beginning. For example, women make up almost half of entry-level hires, but are 18% less likely than men to be promoted to manager.⁸³

Although there are notable exceptions (for instance, Ursula M. Burns was CEO of Xerox, and Indra Nooyi was Pepsico’s CEO), and women seem particularly at risk. An older survey asked U.S. based minority women what they

saw as the career barriers. They said not having an influential mentor (47%), lack of informal networking with influential colleagues (40%), lack of company role models for members of the same racial or ethnic group (29%), and a lack of high-visibility assignments (28%).⁸⁴ Yet a more recent survey from McKinsey & Company and LeanIn.org came to about the same conclusions: Managers don't advocate for them, help them manage company politics, provide advice, nor give them stretch assignments.⁸⁵

What to do about this? Here are suggestions, aimed at addressing the key findings of the McKinsey & Company/Lean In survey *Women in the Workplace 2017*:⁸⁶

“Women hit the glass ceiling early.” Women are 18% less likely to be promoted to manager. *Recognize this as a potential problem, and ensure training and appraisal processes are proactively nondiscriminatory.*

“Men are more likely to say they get what they want without having to ask.” Men are more likely to have gotten promotions and raises, and to thus already be satisfied without asking for more. *Make sure you execute promotion and compensation decisions equitably.*

“Women get less of the support that advances careers.” Women are less likely to receive advice from managers on how to advance. *Improve mentoring and networking practices.* For example, Marriott instituted leadership conferences for women. Speakers offered practical tips for career advancement, and shared their experiences. The conferences also provided informal opportunities for Marriott women to meet and forge business relationships.

“Women are less optimistic they can reach the top.” Women are less likely than men to aspire to top management. *Have mentors encourage, as appropriate, stretch assignments for female employees and encourage them to apply for promotions as appropriate, and have female top management role models.* Also, *eliminate barriers.* For example, some practices (such as required late-night meetings) may seem gender neutral but in fact disproportionately affect women.

“Men are less committed to gender diversity efforts.” Men are less likely to consider gender diversity a priority; some even see it as impeding their own advancement. *The top manager should make it clear that he or she is fully committed to gender diversity.*

“Many women still work a double shift.” About 54% of women do all or most of the household work, compared to 22% of men. *Institute career tracks (including reduced hours and flexible work schedules) that allow women to periodically reduce their time at work, but remain on a partner track.* When the accounting firm Deloitte saw it was losing female auditors, it instituted a new flexible/reduced work schedule. This enabled many working mothers to stay with the firm.⁸⁷ ■

Managing Transfers

transfers

Reassignments to similar positions in other parts of the firm.

A **transfer** is a move from one job to another, usually with no change in salary or grade. Employers may transfer a worker to vacate a position where he or she is no longer needed, to fill one where he or she is needed, or more generally to find a better fit for the employee within the firm. Many firms today boost productivity by consolidating positions. Transfers are a way to give displaced employees a chance for another assignment or, perhaps, some personal growth. Employees seek transfers for many reasons, including personal enrichment,

more interesting jobs, greater convenience—better hours, location of work, and so on—or to jobs offering greater advancement possibilities. Transfers for the firm's convenience—once widely used—are used less of late.

Managing Retirements

Retirement planning is a significant issue for employers.⁸⁸ So, with many employees in their 60s approaching retirement age, employers face a problem: either retain and attract potential retirees, or face the possibility of not filling all their open positions.

Many have wisely chosen to fill their staffing gaps in part with current or soon-to-be retirees. Fortuitously, 78% of employees in one survey said they expect to continue working in some capacity after normal retirement age (64% said they want to do so part-time). Only about a third plan to continue work for financial reasons; about 43% just want to stay active.⁸⁹

The bottom line is that “retirement planning” is no longer just about helping current employees slip into retirement.⁹⁰ It should also help the employer to retain, in some capacity, the skills and brainpower of those who would normally retire and leave the firm. HR managers, employees, and supervisors should all have input into the employer's retirement processes.⁹¹

RETIREMENT PROGRAM STEPS A reasonable first step is to conduct numerical analyses of pending retirements. This should include a demographic analysis (including a census of the company's employees), determining the current average retirement age for the company's employees, and assessing how retirements will affect the employer's health-care and pension benefits. The employer can then determine the extent of the “retirement problem,” and take fact-based steps to address it.⁹²

Employers are transferring employees less often, partly because of family resistance.

Indiapicture / Alamy Stock Photo



Employers seeking to attract and/or retain retirees should take several steps. The general idea is to institute human resource policies that encourage and support older workers. Not surprisingly, studies show that loyal employees are more likely to stay beyond their normal retirement age.⁹³ It therefore helps to create a culture that honors experience. For example, In India, retired employees from different sectors like teaching, medical care, banking, etc., find re-employment in smaller companies and the private sector. To overcome shortage of faculty, the government of India has permitted IITs and IIMs to employ retired faculty on contract. To cater to the welfare and re-employment of retirees from the Indian Armed forces (around 60,000 personnel are released or retired annually), the Directorate General of Resettlement (DGR) assist them in training and finding a second career. For officers, the DGR organizes a management course in IIMA, MDI, etc., which equips the officers to take up open market jobs. The Directorate's website (www.dgrindia.org) lists available jobs. Some companies modify selection procedures to suit retired persons. For example, one British bank stopped using Psychometric tests, replacing them with role-playing exercises to gauge how candidates deal with customers.

Other techniques employers use to keep older workers include offering them part-time positions, hiring them as consultants or temporary workers, offering them flexible work arrangements, encouraging them to work past traditional retirement age, providing training to upgrade skills, and instituting phased retirement programs (gradually reduced work schedules).⁹⁴



LEARNING OBJECTIVE 10-5

Explain each of the main grounds for dismissal.

Managing Dismissals/Terminations

Not all employee separations are voluntary. Some career plans and appraisals end not in promotion or graceful retirement but in **dismissal**—involuntary termination of an employee's employment with the firm. Many dismissals are avoidable. For example, many dismissals flow from bad hiring decisions. Using assessment tests, background checks, drug testing, and clearly defined jobs can reduce such dismissals.⁹⁵ Many Indian companies do not take advantage of this provision. At the same time, some employers treat employees unfairly by extending probationary period indefinitely. When brought to the notice of the Indian judiciary, this was termed as unacceptable, and the employer has to issue a confirmation.

The Indian law determines the nature of misconduct. The Industrial Employment Standing Orders Act 1946, which governs workplace conduct, classifies offenses by employees into two categories - minor and major. This classification helps to deal with consequences proportionate to the magnitude of offence. The aim is to reform the person, and progressively allow more opportunities to perform.⁹⁶

Grounds for Dismissal

There are four bases for dismissal: unsatisfactory performance, misconduct, lack of qualifications for the job, and changed requirements of (or elimination of) the job.

Unsatisfactory performance refers to a persistent failure to perform assigned duties or to meet prescribed standards on the job.⁹⁷ Specific reasons include lack of productivity or poor-quality work, excessive absenteeism, tardiness, or an adverse attitude.

dismissal

Involuntary termination of an employee's employment with the firm.

Misconduct is deliberate and willful violation of the employer's rules and may include stealing, rowdy behavior, sexual harassment, and physical violence or threats at work.

Lack of qualifications for the job is an employee's inability to do the assigned work, although he or she wants to. Because this employee may be trying to do the job, it is reasonable to try to salvage him or her—perhaps through further training or by assigning the employee to another job.

Changed requirements of the job is an employee's incapability of doing the job after the nature of the job has changed. Similarly, you may have to terminate an employee when his or her job is eliminated, while keeping in mind that such decisions are difficult under Indian labor law. Again, the employee may be industrious, so it is reasonable to retrain or transfer this person, if possible.

Insubordination, a form of misconduct, is sometimes the grounds for dismissal. The two basic categories of insubordination are *unwillingness* to carry out the manager's orders, and *disrespectful behavior* toward the manager. (This assumes that the orders were legitimate, and that the manager did not incite the reaction through his or her own extreme behavior.) Examples of insubordination include the following:⁹⁸

1. Direct disregard of the boss's authority
2. Direct disobedience of, or refusal to obey, the boss's orders, particularly in front of others
3. Deliberate defiance of clearly stated company policies, rules, regulations, and procedures
4. Public criticism of the boss
5. Blatant disregard of reasonable instructions
6. Contemptuous display of disrespect
7. Disregard for the chain of command
8. Participation in (or leadership of) an effort to undermine and remove the boss from power

FAIRNESS SAFEGUARDS Dismissals are never easy. However, the manager can take steps to make them fair.⁹⁹ First, allow the employee to explain why he (or she) did what he did. It could turn out, for instance, that the employee “disobeyed” the order because he or she did not understand it. Second, people who get *full explanations* of why and how termination decisions were made “were more likely to perceive their layoff as fair . . . and indicate that they did not wish to take the past employer to court.”

Third, have a formal *multistep procedure* (including warning) and an appeal process.

Fourth, *the person who actually does the dismissing* is important. Employees in one study whose managers informed them of an impending layoff viewed the dismissal fairer than did those told by, say, a human resource manager. Some employers take a less diplomatic approach. About 10% of respondents in one survey said they've used e-mail to fire employees.¹⁰⁰ Use the right person, and dismiss humanely.

Fifth, dismissed employees who feel they've been treated unfairly financially are more likely to sue. The much publicized case of the unfair dismissal of an employee of Tech Mahindra is such an example. The manner in which the employee was treated was discussed at length in the social media.¹⁰¹ Many employers use severance pay package to blunt a dismissal's sting.¹⁰² Many employers use severance pay to blunt that. Most provide severance based on position level, salary, and tenure, but only about half have formal severance policies.¹⁰³

insubordination

Willful disregard or disobedience of the boss's authority or legitimate orders; criticizing the boss in public.



KNOW YOUR EMPLOYMENT LAW

Termination at Will

For more than 100 years, the prevailing rule in the United States has been that without an employment contract, either the employer or the employee can **terminate at will** the employment relationship. In other words, the employee could resign for any reason, at will, and the employer could similarly dismiss an employee for any reason, at will. ■

Avoiding Wrongful Discharge Suits/Dismissal

Wrongful discharge (or *wrongful termination*) occurs when an employee's dismissal does not comply with the law or with the contractual arrangement stated or implied by the employer. (In a wrongful *constructive discharge* claim, the plaintiff argues that he or she was forced to quit because the employer made the working conditions intolerable.)¹⁰⁴

Avoiding wrongful discharge suits requires several things.¹⁰⁵ *First*, have employment policies including grievance procedures that help show that you treat employees fairly. Also use severance pay to blunt a dismissal's sting.¹⁰⁶ No termination is pleasant, but the first line of defense is to handle it justly.¹⁰⁷

Second, review and refine all employment-related policies, procedures, and documents to limit challenges. Procedural steps include the following:¹⁰⁸

- Have applicants sign the employment application. Make sure it contains a statement that “the employer can terminate at any time.”
- Review your employee manual to delete statements that could undermine your defense in a wrongful discharge case. For example, delete “employees can be terminated only for just cause.”
- Have written rules listing infractions that may require discipline and discharge.
- If a rule is broken, get the worker's side of the story in front of witnesses, and preferably get it signed. Then check out the story.
- Be sure employees get a written appraisal at least annually. If an employee shows evidence of incompetence, give that person a warning. Provide an opportunity to improve.
- Keep careful confidential records of all actions such as employee appraisals, warnings or notices, and so on.
- Finally, ask the questions in Figure 10-3.

There are several ways to reduce the likelihood of having personal liability become an issue.

- *Follow company policies and procedures.* An employee may initiate a claim against a supervisor who he or she alleges did not follow policies and procedures.
- *Carefully consider and fully document* the basis for any termination decision.
- Administer the dismissal in a manner that does not add to the employee's *emotional hardship* (as would having the employee publicly collect his or her belongings and leave the office).
- *Do not act in anger*, since doing so undermines the appearance of objectivity.

FIGURE 10-3 Avoiding Wrongful Discharge Claims

Source: Sovereign, K. L. (1999). *Personal law* (4th ed.). Copyright © 1999 Pearson Education, Inc. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ; Pack, A., & Capito, K. (2012, September 11). 8 questions an employer should ask before taking an adverse employment action. www.dinsmore.com/adverse_employment_action_steps, accessed May 31, 2017; Wrongful termination checklist. <http://employment.findlaw.com/losing-a-job/wrongful-termination-checklist.html>, accessed May 1, 2017.

Avoiding Wrongful Discharge Claims: Some Questions to Ask Before Making the Dismissal Final

Avoiding wrongful discharge claims is a complicated matter that involves, for instance, ensuring that the dismissal is fair and that it does not involve issues of discrimination, harassment, retaliation, or breach of contract. Illustrative questions to ask would include:

- Is the employee covered by any type of written agreement, including a collective bargaining agreement?
- Is there any workers' compensation involvement?
- Have reasonable rules and regulations been communicated and enforced?
- Has the employee been given an opportunity to explain any rule violations or to correct poor performance?
- Is there any direct or circumstantial evidence (such as statements) that the employee is being terminated for discriminatory reasons?
- Are similar employees treated differently on the basis of age, gender, race or other protected group category?
- Did an employer make unwelcome sexual advances, request sexual favors, or seek to establish a romantic or sexual relationship?
- Before being fired, did the employee report potential violations in the company to a supervisor, colleagues, your human resources department, or an enforcement agency such as OSHA?
- Is the employee working under a written contract and if so, did it establish permissible reasons for termination or a termination procedure?
- Did the employer, supervisor, or superior make any verbal promises, such as saying the person's job was "guaranteed" or ensuring "tenure" at work?
- How long has the employee been working here and is this his or her first discipline issue?
- Are you sure there have been past warnings?
- Has anyone else committed this offense and been treated differently?

- Finally, use the HR department for advice regarding how to handle difficult dismissal situations.

Security Measures

The employer should use a checklist to ensure (for instance) that dismissed employees return all keys and company property, and (often) that they're accompanied out of the building.¹⁰⁹ For example, the employer should disable Internet-related accounts of former employees, plug holes that could allow them to gain illegal online access, and have rules for return of company laptops and handhelds. As a matter of policy, the employer should immediately inform the IT department of an impending employee separation, to enable IT to take the necessary actions. These actions should include, for instance, disabling access and passwords and changing IP addresses.¹¹⁰



termination interview

The interview in which an employee is informed of the fact that he or she has been dismissed.

The Termination Interview and Exit Process

Dismissing an employee is one of the most difficult tasks you can face at work. The dismissed employee, even if warned many times, may react with disbelief or even violence. (Review the impending interview with an attorney, if you believe protected characteristics such as gender or age may become issues during or after the interview.)¹¹¹ Guidelines for the **termination interview** are as follows:¹¹²

1. Plan the interview.

- Make sure the employee keeps the appointment time.
- Have employee agreements, the human resource file, and a release announcement prepared in advance.
- Have phone numbers ready for medical or security emergencies.

2. **Get to the point.** When the employee enters, give the person a moment to get comfortable and then tell him or her the purpose of the meeting and of your decision.
3. **Describe the situation.** Briefly, in three or four sentences, explain why the person is being let go. For instance, “Production in your area is down 4%, and we are continuing to have quality problems. We have talked about these problems several times in the past 3 months, and the solutions are not being followed through on. We have to make a change.” Don’t personalize the situation as in, “Your production is just not up to par.” Emphasize the decision is irrevocable. State the effective date of the termination. Preserving the employee’s dignity is important. Point out that the situation was carefully reviewed, but do not provide a detailed analysis of the documents supporting the discharge.¹¹³
4. **Listen.** Continue the interview for several minutes until the person appears to be talking freely and reasonably calmly.
5. **Review the severance package or compensation/payment plan.** Describe severance payments, benefits, access to office support people, and the way references will be handled. Make no promises of benefits beyond those already in the support package.
6. **Identify the next step.** The terminated employee may be disoriented and unsure what to do next. Explain where the employee should go next, upon leaving the interview.

outplacement counseling

A formal process by which a terminated person is trained and counseled in the techniques of self-appraisal and securing a new position.

OUTPLACEMENT COUNSELING With **outplacement counseling** the employer arranges for an outside firm to provide terminated employees with career planning and job search skills. *Outplacement firms* usually provide such outplacement services. Employees (usually managers or professionals) who are let go typically have office space and secretarial services they can use at local offices of such firms, plus the counseling services. The outplacement counseling is part of the terminated employee’s support or severance package. Why not just give the person the outplacement fee as additional severance? In general, providing outplacement services seems to have positive effects for both the terminated employee and the employer.¹¹⁴

exit interviews

Interviews with employees who are leaving the firm, conducted for obtaining information about the job or related matters, to give the employer insight about the company.

EXIT INTERVIEW Many employers conduct **exit interviews**, just prior to the employee leaving. These aim to give employers insights into their companies’ strengths and weaknesses so as to improve employee retention.¹¹⁵ Questions include: What made you start looking for a new job? How would you describe our company’s culture? How would you describe your supervisor’s management style? What did you like most/least about the company?¹¹⁶ Other questions relate to HR (such as promotion processes), the work itself (including working conditions), and to competitive benchmarks (such as salaries compared to competitors’). Try to make sure the exiting employee leaves as a supporter of the employer.¹¹⁷

The assumption is that because the employee is leaving he or she will be candid, but this is debatable.¹¹⁸ One older study found that at separation, 38% of those leaving blamed salary and benefits, and 4% blamed supervision. Followed up 18 months later, 24% blamed supervision and 12% blamed salary and benefits. That apparently hasn’t changed. To paraphrase one top executive, someone’s not going to blame his supervisor if he wants to get that person’s recommendation.¹¹⁹ Questioning should therefore be incisive. Considering the sensitivity of exit interviews and the chances of losing focus, Indian companies have started using third parties to conduct the process. Marico Industries

Limited outsourced the process to ensure confidentiality and be free of any prejudice. Marico was interested in identifying the real issues behind employee exits, and the process helped interested employees to return back. At present, 10% of employees in Marico are returnees.¹²⁰

THE EXIT PROCESS The exit interview is one part of a rational exit process. The employer should have a checklist.¹²¹ As noted earlier, ensure that the employee returns all keys and company equipment, that all computer and database password access is terminated, that proper communications are sent internally (for instance, to other employees if appropriate, and to payroll) and externally, that the employee leaves the premises in a timely fashion, and that if necessary security precautions are followed.

More employees today quit without giving notice. Sometimes that's justified. For example, those taking jobs with competitors should no longer have access to the employer's information. But more often, quitting without notice reflects unfamiliarity with the traditional 2-week notice standard, or of seeing one's colleagues summarily dismissed.¹²² Similarly, about 40% of workers laid off in one study placed negative social media reviews about the employer. The point is to make the separation as civil as possible.¹²³

FOR THE EMPLOYEE What should you do if you get fired or passed over for a position?¹²⁴ Most people surrender to the usual stages of shock, denial, and anger. However, the better first step is usually to think through why you lost the job. Doing so isn't easy. Actively explore what (if anything) you did to contribute to the problem. Then objectively consider what you might do differently in the future, keeping in mind that you should view the loss (difficult though this may be) as an opportunity. Then evaluate your new options and be ready to seize the right opportunity.

Layoffs and the Plant Closing Law in U.S. and India

layoff

An employer sending employees home due to a lack of work; this is typically a temporary situation.

A **layoff**, in which the employer sends workers home for a time for lack of work, is usually not a permanent dismissal (although it may turn out to be). Rather, it is a temporary one, which the employer expects will be short term. However, some employers use the term *layoff* as a euphemism for discharge or termination. In the deep recession years of 2008 and 2009 combined, employers carried out a total of about 51,000 mass layoffs, idling over 5 million workers.¹²⁵

A study illustrates one us firm's layoff process. Senior management first met to make strategic decisions about the size and timing of the layoffs. They also debated the relative importance of the skills the firm needed going forward. Supervisors then assessed their subordinates, rating their nonunion employees either A, B, or C (union employees were covered by a union agreement making layoffs dependent on seniority). The supervisors then informed each of their subordinates about his or her A, B, or C rating, and told each that those with C grades were most likely to be laid off.¹²⁶

ID Act on Closure, Layoff and Retrenchment

CLOSURE Closure means permanent closing down of a place of employment or part thereof, application of chapter V-B of Industrial Dispute Act, 1947.

LAYOFF According to [section 2 (kkk)] of Industrial disputes act, 1947- means when employer remove the employees temporary or permanently due to some problem in factory like lack of money or raw material other amenities, shortage of space.

RETRENCHMENT According to Section 2(oo) It means termination of the an employee by the employer because of breaking any rules or obligation of an disciplinary action.

it does not include voluntary retirement, or on the ground of ill health.

Adjusting to Downsizings and Mergers

downsizing

The process of reducing, usually dramatically, the number of people employed by a firm.

Downsizing means reducing, usually dramatically, the number of people employed by a firm. The basic idea is to cut costs and raise profitability. Downsizings (some call them “productivity transformation programs”)¹²⁷ require careful consideration of several matters.

1. First is making sure *the right people* are let go; this requires having an effective appraisal system in place.
2. Second is *compliance with all applicable laws*.
3. Third is executing the dismissals in a manner that is *just and fair*.
4. Fourth is *security*, for instance, retrieving keys and ensuring that those leaving don’t take prohibited items with them.
5. Fifth is reducing the remaining employees’ uncertainty and addressing their concerns. This typically involves a post downsizing announcement and program, including meetings where senior managers field questions from the remaining employees.

Providing advanced notice regarding the layoff can help cushion the otherwise negative effects. So can interpersonal sensitivity (in terms of the manager’s demeanor during layoffs).¹²⁸ In case of merger of State Bank of India with its associate banks, there were no forced downsizing. Instead, the Voluntary Retirement Scheme (VRS) was introduced, wherein employees who voluntarily choose to leave employment received good compensation and some benefits like normal retirement.

VRS is legally permitted in India as a more humane way to downsize, without any pressure on employees, while they are being compensated for the employment loss. Hence, trade unions also support VRS, if the compensation terms are favorable. The compensation received by the employee is also exempted from Income Tax (up to ₹ 5 lakh) under Section 10 (c) of the Income Tax Act. For exemption, vacancies created under the VRS scheme cannot be filled. For workmen covered under the Industrial Disputes act of 1947, the scheme can be offered only with prior approval of the government.¹²⁹ Lay-offs can be more challenging abroad due to special legal obligations, such as requirements for a year’s notice in some countries.

Supportiveness and creativity are especially important in companies that rely heavily on employee engagement and teamwork.¹³⁰ Here, turnover is especially disruptive, so it may be particularly important to avoid layoffs. Options here include: implement pay freezes or cuts; introduce a hiring freeze before reducing the workforce; provide candid communications about the need for the downsizing; give employees an opportunity to express their opinions about the downsizing; and be fair and compassionate in implementing the downsizing.¹³¹

Chapter Review

Chapter Section Summaries

- 10-1. Employees are ultimately responsible for their own careers, but employers and managers also have roles in **career management**. These include establishing company-based career centers, offering career planning workshops, providing employee development budgets, and offering online career development programs. Perhaps the simplest is to make the appraisal itself career-oriented, by linking the appraisal feedback to the employee's aspirations and plans.
- 10-2. The employer's career planning and development process and practices (including career-oriented appraisal) help to foster **employee engagement**. Managed effectively, the employer's career development process should send the signal that the employer cares about the employee's career success.
- 10-3. Managing voluntary turnover requires identifying its causes and then addressing them. A comprehensive approach to **retaining employees** should be multifaceted, and include improved selection, a well-thought-out training and career development program, assistance in helping employees lay out potential career plans, providing employees with meaningful work and recognition and rewards, promoting work-life balance, acknowledging employees' achievements, and providing all this within a supportive company culture.
- 10-4. Employers need to address employee **life-cycle career management** issues. Most notably, promotions can provide opportunities to reward exceptional performance, and to fill open positions with tested and loyal employees. Several decisions loom large in any firm's promotion process: Is seniority or competence the rule? How should we measure competence? Is the process formal or informal? Vertical, horizontal, or other? Women and people of color still experience relatively less career progress in organizations, and bias and more subtle barriers are often the cause. In general, the employer's promotion processes must comply with all the same anti discrimination laws as do procedures for recruiting and selecting employees or any other HR actions. Transfers and retirements are other important career life-cycle issues.
- 10-5. **Managing dismissals** is an important part of any supervisor's job. Among the reasons for dismissal are unsatisfactory performance, misconduct, lack of qualifications, changed job requirements, and insubordination. In dismissing one or more employees, however, remember that termination at will as a policy has been weakened by exceptions in many states. Furthermore, care should be taken to avoid wrongful discharge suits.

Discussion Questions

- 10-1. Why is it advisable for an employee retention effort to be comprehensive? What activities would you say are involved in such a program?
- 10-2. What is the employee's role in the career development process? The manager's role? The employer's role?
- 10-3. What are the main decisions employers should address in reaching promotion decisions?
- 10-4. Discuss at least four procedural suggestions for managing dismissals effectively.
- 10-5. What would you as a supervisor do to avoid someone accusing you of wrongful dismissal?

Individual and Group Activities

- 10-6. Many rightfully offer IBM as an example of an employer that works hard to improve employee retention and engagement. Browse through the employment pages of IBM's website (such as <http://www-03.ibm.com/employment/index.shtml>). In this chapter, we discussed actions employers can take to improve employee retention and engagement. From the information on IBM's Web pages, what is IBM doing to support retention and engagement?

- 10-7.** In groups of four or five students, meet with one or two administrators and faculty members in your college or university and, based on this, write a two-page paper on the topic “the faculty promotion process at our college.” What do you think of the process? Based on our discussion in this chapter, could you make any suggestions for improving it?
- 10-8.** Working individually or in groups, choose two occupations (such as management consultant, HR manager, or salesperson) and use sources such as O*NET to size up the future demand for this occupation in the next 10 years or so. Does this seem like a good occupation to pursue? Why or why not?
- 10-9.** In groups of four or five students, interview a small business owner or an HR manager with the aim of writing a two-page paper addressing the topic “steps our company is taking to reduce voluntary employee turnover.” What is this employer’s turnover rate now? How would you suggest it improve its turnover rate?
- 10-10.** Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team’s questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.
- 10-11.** Several years ago, a survey of college graduates in the United Kingdom found that although many hadn’t found their first jobs, most were already planning “career breaks” and to keep up their hobbies and interests outside work. As one report of the findings put it, “the next generation of workers is determined not to wind up on the hamster wheel of long hours with no play.”¹³² Part of the problem seems to be that many already see their friends “putting in more than 48 hours a week” at work. Career experts reviewing the results concluded that many of these recent college grads “are not looking for high-pay, high-profile jobs anymore.”¹³³ Instead, they seem to be looking to “compartmentalize” their lives. They want to keep the number of hours they spend at work down, so they can maintain their hobbies and outside interests. If you were mentoring one of these people at work, what three bits of career advice would you give him or her? Why? What (if anything) would you suggest their employers do to accommodate these graduates’ stated career wishes?
- 10-12.** Websites such as Sporting News occasionally run a story listing what they call the greatest coaches (for example, key “greatest coaches” into Google search).¹³⁴ Look at this list, and pick out two of the names. Then research these people online to determine what behaviors they exhibited that seem to account for why they were great coaches. How do these behaviors compare with what this chapter had to say about effective coaching?



Experiential Exercise

Where Am I Going . . . and Why?

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Purpose: The purpose of this exercise is to provide you with experience in analyzing your career preferences.

Required Understanding: Students should be thoroughly familiar with the “Employee’s Role in Career Management” section in this chapter, as well as using O*NET (which we discussed in Chapter 4).

How to Set Up the Exercise/Instructions: Using O*NET and the “Employee’s Role in Career

Management” section in this chapter, analyze your career-related inclinations (you can also take the Self-Directed Search for about \$10 at www.self-directed-search.com). Based on this analysis, answer the following questions (if you wish, you may do this analysis in teams of three or four students).

10-13. What does your research suggest to you about what would be your preferable occupational options?

10-14. What are the prospects for these occupations?

10-15. Given these prospects and your own occupational inclinations, outline a brief, one-page career plan for yourself, including current occupational inclinations, career goals, and an action plan listing four or five development steps you will need to take in order to get from where you are now career-wise to where you want to be, based on your career goals.

Application Case

Uber Technologies Inc.

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The year 2017 was a tough one for Uber Technologies Inc.¹³⁵ An Uber engineer posted a blog called “Reflecting on One Very, Very Strange Year in Uber,” in which she detailed, among other things, a culture of harassment at Uber. Almost at once, Uber values that symbolized its “win at any cost” way of doing things (values like “builders build, always be hustlin’,” and “meritocracy and toe stepping”) were called into question. So in 2017, not only was Uber’s core employee turnover too high, but six top executives stepped down, including the president, finance head, senior vice president of engineering, and CEO Travis Kalanick.

Uber’s Board of Directors retained former attorney general Eric Holder, Jr. to conduct an analysis of Uber’s culture. Holder’s recommendations provide insight into the problems Uber needed to address. The lawyers recommended, for instance, that Uber:

prohibit romantic relationships among employees where one person reports to the other; institute guidelines on using alcohol and controlled substances at work; adopt a zero tolerance policy with respect to harassment, discrimination, and retaliation; broaden its recruitment practices to include sources of minority job candidates; and that the Board of Directors create a special ethics and culture committee.

Questions

10-16. Without doing any more research beyond what you learned in this chapter, what steps would you suggest Uber take to improve employee retention?

10-17. Was there any information in previous chapters of this book that would help to illustrate other steps Uber could take to improve retention?

10-18. Use other Internet sources, including Uber.com, to finalize an answer to the question: What other steps should Uber take to improve employee retention?

Continuing Case

Carter Cleaning Company

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The Career Planning Program

Career planning has always been a pretty low-priority item for Carter Cleaning, since “just getting workers to come to work and then keeping them honest is enough of a problem,” as Jack likes to say. Yet Jennifer thought it might not be a bad idea to give some thought to what a career planning program might involve for Carter. Many of their employees had been with them for years in dead-end jobs, and she frankly felt a little bad for

them: “Perhaps we could help them gain a better perspective on what they want to do,” she thought. And she definitely believed that career support would have an effect on improving Carter’s employee retention.

Questions

10-19. What would be the advantages to Carter Cleaning of setting up a career planning program?

10-20. Who should participate in the program? All employees? Selected employees?

10-21. Outline and describe the career development program you would propose for the cleaners, pressers, counter people, and managers at the Carter Cleaning Centers.

Translating Strategy into HR Policies and Practices Case[§]

Improving Performance at the Hotel Paris

The New Career Management System

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

Lisa Cruz knew that, as a hospitality business, the Hotel Paris was uniquely dependent upon having engaged, high-morale employees. In a factory or small retail shop, the employer might be able to rely on direct supervision to make sure that the employees were doing their jobs. But in a hotel, just about every employee is "on the front line." There is usually no one there to supervise the limousine driver when he or she picks up a guest at the airport, or when the valet takes the guest's car, or the front-desk clerk signs the guest in, or the house-keeping clerk needs to handle a guest's special request. If the hotel wanted satisfied guests, they had to have engaged employees who did their jobs as if they owned the company, even when the supervisor was nowhere in sight. But for the employees to be engaged, Lisa knew, the Hotel Paris had to make it clear that the company was also committed to its employees.

From her experience, she knew that one way to do this was to help her employees have successful and satisfying careers, and she was therefore concerned to find that the Hotel Paris had no career management process at all. Supervisors weren't trained to discuss employees' developmental needs or promotional options during the performance appraisal interviews. Promotional processes were informal. And the firm made no attempt to provide any career development services that might help its employees to develop a better understanding of what their career options were, or should be. Lisa was sure that engaged employees were key to improving the experiences of the hotel's guests, and that she couldn't boost employee engagement without doing a better job of attending to her employees' career needs. In two hotels she began encouraging supervisors to at least engage in career-oriented appraisals with their subordinates, on a pilot project basis.

For Lisa and the CFO, their preliminary research left little doubt about the advisability of instituting a new career management system at the Hotel Paris. Based on their pilot project, employees in those Hotel Paris hotels who had been working under the new career management directive were more engaged, received more

complimentary letters from guests, and received higher performance appraisal ratings than did employees who did not have career plans. The CFO therefore gave the go-ahead to design and institute a new Hotel Paris career management program.

Lisa and her team knew that they already had most of the building blocks in place, thanks to the new performance management system they had instituted just a few weeks earlier. For example, the new performance management system already required that the supervisor appraise the employee based on goals and competencies that were driven by the company's strategic needs; and the appraisal itself produced new goals for the coming year and specific development plans for the employee. These development plans had to make sense in terms of both the company's and the employee's needs and preferences.

In addition to the new performance management elements already in place, Lisa and her team created an online "Hotel Paris Career Center." With links to a choice of career assessment tools such as the Self-Directed Search (www.self-directed-search.com) and wizard-based templates for developing one's own career plan, the site went far toward providing the Hotel Paris's employees with the career assistance that they required. Also on the site, a new "International Job Openings" link made it easier for Hotel Paris employees to identify positions for which they might be qualified. The results exceeded Lisa and the CFO's expectations. Virtually every employee produced a career plan within the first 6 months. The appraisal interviews often turned into animated, career-oriented development sessions, and soon the various measures of employee commitment and guest service were trending up.

Questions

- 10-22. "Many hotel jobs are inherently 'dead end'; for example, maids, laundry workers, and valets either have no great aspirations to move up, or are just using these jobs temporarily, for instance, to help out with household expenses." First, do you agree with this statement? Why, or why not? Second, list three more specific career activities you would recommend Lisa implement for these employees.
- 10-23. Using what you learned in this chapter of Dessler *Human Resource Management*, build on the company's new system by recommending two more specific career development activities the hotel should implement.
- 10-24. What other specific career development activities would you recommend in light of the fact that the Hotel Paris's hotels and employees are dispersed around the world?

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Key Terms

career, 355
career management, 355
career development, 355
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reality shock, 358
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Annexure

Managing Your Career and Finding a Job

The individual must be responsible for creating and managing his or her own career. And, in today's job marketplace, knowing how to find and get a job is crucial.

Making Career Choices

Many people don't put much thought into their careers. Some choose majors based on class scheduling preferences, favorite professors, or unstated psychological motives. Others stumble into jobs because "that's all that was available." If there was ever anything that demanded fact-based decisions, it is choosing your career.

The first and essential step is to learn as much as possible about your interests, aptitudes, and skills. The most direct way to do this is through experience, preferably a roster of jobs, internships, and experiences that will help you crystallize what it is you like to do and are great at. Getting experience doesn't just help career planning: In one study, the researchers sent out 9,400 fictitious resumes for "applicants" that differed in things like grade point average, major, and university. On-the-job experience—for instance, via internships—seemed to be the single most important factor in getting a job interview.¹³⁶ Beyond that, there are career tests and exercises you can use.

IDENTIFY YOUR OCCUPATIONAL ORIENTATION Career-counseling expert John Holland says that personality (including values, motives, and needs) is one career choice determinant. For example, a person with a strong social orientation on Holland's Self-Directed Search (SDS) might be attracted to careers that entail interpersonal rather than intellectual or physical activities and to occupations such as social work. Based on research with his earlier Vocational Preference Test (VPT), Holland found six basic personality types or orientations (see www.self-directed-search.com).¹³⁷

1. **Realistic orientation.** These people are attracted to occupations that involve physical activities requiring skill, strength, and coordination.

Examples include forestry, farming, and agriculture.

2. **Investigative orientation.** Investigative people are attracted to careers that involve cognitive activities (thinking, organizing, understanding) rather than affective activities (feeling, acting, or interpersonal and emotional tasks). Examples include biologist, chemist, and college professor.
3. **Artistic orientation.** People here are attracted to careers that involve self-expression, artistic creation, expression of emotions, and individualistic activities. Examples include artists, advertising executives, and musicians.
4. **Social orientation.** These people are attracted to careers that involve interpersonal rather than intellectual or physical activities. Examples include clinical psychology, foreign service, and social work.
5. **Enterprising orientation.** Verbal activities aimed at influencing others characterize enterprising personalities. Examples include managers, lawyers, and public relations executives.
6. **Conventional orientation.** A conventional orientation favors careers that involve structured, rule-regulated activities, as well as careers in which it is expected that the employee subordinate his or her personal needs to those of the organization. Examples include accountants and bankers.

Most people have more than one "RIASEC" occupational orientation (they might be social, realistic, and investigative, for example), and Holland believed that the more similar or compatible these orientations are, the less internal conflict or indecision a person will face in making a career choice. You can take Holland's SDS online for a small fee (see www.self-directed-search.com). Of course, as someone gains experience, it is possible (or likely) that his or her RIASEC scores will change over time.¹³⁸

IDENTIFY YOUR SKILLS You may have a "conventional" orientation, but whether you have *the skills* to be an accountant, banker, or credit manager will affect which occupation you ultimately choose. Therefore, you have to identify your skills. We presented some exercises for this earlier in this chapter, on page 356.

APTITUDES AND SPECIAL TALENTS For career planning purposes, a person's aptitudes are usually measured with a test battery such as the general aptitude test battery (GATB), which most state one-stop career centers make available. This instrument measures various aptitudes including intelligence and mathematical ability. You can also use specialized tests, such as for mechanical comprehension. Holland's Self-Directed Search will also provide some insights into your aptitudes, as will O*NET.¹³⁹

O*NET O*NET offers a free online "My Next Move" career assessment system (<https://www.onetonline.org/help/onet/mynextmove>).¹⁴⁰ It includes *O*NET Interest Profiler*, a tool that offers customized career suggestions on over 900 different careers based on a person's interests and level of education and work experience. Users obtain important information including skills, tasks, salaries, and employment outlook for occupations.¹⁴¹

IDENTIFY YOUR CAREER ANCHORS Professor Edgar Schein says that career planning is a continuing process of discovery—one in which a person slowly develops a clearer occupational self-concept in terms of what his or her talents, abilities, motives, needs, attitudes, and values are. Schein also says that as you

learn more about yourself, it becomes apparent that you have a dominant *career anchor*, a concern or value that you will not give up if a [career] choice has to be made.

Career anchors, as their name implies, are the pivots around which a person's career swings; a person becomes conscious of them because of learning, through experience, about his or her talents and abilities, motives and needs, and attitudes and values. Based on his research at the Massachusetts Institute of Technology, Schein believes that career anchors are difficult to predict because they are evolutionary and a product of a process of discovery. Some people may never find out what their career anchors are until they have to make a major choice—such as whether to take the promotion to the headquarters staff or strike out on their own by starting a business. It is at this point that all the person's past work experiences, interests, aptitudes, and orientations converge into a meaningful pattern that helps show what (career anchor) is the most important factor in driving the person's career choices. Based on his study of MIT graduates, Schein identified five career anchors.¹⁴²

TECHNICAL/FUNCTIONAL COMPETENCE People who had a strong technical/functional career anchor tended to avoid decisions that would drive them toward

As noted in the accompanying text, O*NET offers a free comprehensive online "My Next Move" occupation and career assessment system for building your future career (<https://www.onetonline.org/help/onet/mynextmove>).

Source: <https://www.onetonline.org/help/onet/mynextmove>, accessed August 6, 2018.

O*NET OnLine

Help Find Occupations Advanced Search Crosswalks

Share O*NET Sites

O*NET OnLine Help
My Next Move

My Next Move is an interactive tool for job seekers and students to learn more about their career options. The site has tasks, skills, salary information, and more for over 900 different careers. Users can find careers through keyword search; by browsing industries that employ different types of workers; or through the O*NET Interest Profiler, a tool that offers personalized career suggestions based on a person's interests and level of work experience.

While O*NET OnLine offers the widest range of search options and career reports, My Next Move is a streamlined application with key O*NET information for job seekers. The guided approach helps career explorers find the information they need without being overwhelmed. Career reports also link back to O*NET OnLine, for those interested in learning more about a specific career.

Career counselors and other professionals who work with the job-seeking public will find both applications to be valuable resources, as they are meant as complementary tools for different audiences.

[Visit My Next Move now!](#)

Previous: [Training](#)
Next: [OnLine Overview](#)
[back to OnLine Help table of contents](#)

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Site updated August 7, 2018

general management. Instead, they made decisions that would enable them to remain and grow in their chosen technical or functional fields.

MANAGERIAL COMPETENCE Other people showed a strong motivation to become managers, and their career experience enabled them to believe they had the skills and values required. A management position of high responsibility is their ultimate goal. When pressed to explain why they believed they had the skills necessary to gain such positions, many in Schein's research sample answered that they were qualified because of what they saw as their competencies in a combination of three areas: (1) *analytical competence* (ability to identify, analyze, and solve problems under conditions of incomplete information and uncertainty); (2) *interpersonal competence* (ability to influence, supervise, lead, manipulate, and control people at all levels); and (3) *emotional competence* (the capacity to be stimulated by emotional and interpersonal crises rather than exhausted or debilitated by them, and the capacity to bear high levels of responsibility without becoming paralyzed).

CREATIVITY Some of the graduates had become successful entrepreneurs. To Schein these people seemed to have a need "to build or create something that was entirely their own product—a product or process that bears their name, a company of their own, or a personal fortune that reflects their accomplishments." For example, one graduate had become a successful purchaser, restorer, and renter of townhouses in a large city; another had built a successful consulting firm.

AUTONOMY AND INDEPENDENCE Some seemed driven by the need to be on their own, free of the dependence that can arise when a person elects to work in a large organization where promotions, transfers, and salary decisions make them subordinate to others. Many of these graduates also had a strong technical/functional orientation. Instead of pursuing this orientation in an organization, they had decided to become consultants, working either alone or as part of a relatively small firm. Others had become professors of business, freelance writers, and proprietors of a small retail business.

SECURITY A few of the graduates were mostly concerned with long-run career stability and job security. They seemed willing to do what was required to

maintain job security, a decent income, and a stable future in the form of a good retirement program and benefits. For those interested in *geographic security*, maintaining a stable, secure career in familiar surroundings was generally more important than pursuing superior career choices, if choosing the latter meant injecting instability or insecurity into their lives by forcing them to pull up roots and move to another city. For others, security meant *organizational security*. They might today opt for government jobs, where tenure still tends to be a way of life. They were much more willing to let their employers decide what their careers should be.

ASSESSING CAREER ANCHORS To help you identify career anchors, take a few sheets of blank paper and write out your answers to the following questions:¹⁴³

1. What was your major area of concentration (if any) in high school? Why did you choose that area? How did you feel about it?
2. What is (or was) your major area of concentration in college? Why did you choose that area? How did you feel about it?
3. What was your first job after school? (Include military if relevant.) What were you looking for in your first job?
4. What were your ambitions or long-range goals when you started your career? Have they changed? When? Why?
5. What was your first major change of job or company? What were you looking for in your next job?
6. What was your next major change of job, company, or career? Why did you initiate or accept it? What were you looking for? (Do this for each of your major changes of job, company, or career.)
7. As you look back over your career, identify some times you have especially enjoyed. What was it about those times that you enjoyed?
8. As you look back, identify some times you have not especially enjoyed. What was it about those times you did not enjoy?
9. Have you ever refused a job move or promotion? Why?
10. Now review all your answers carefully, as well as the descriptions for the five career anchors (technical/functional competence, managerial competence, creativity and independence, autonomy, security). Based on your answers to the questions, rate, for yourself, each of the anchors from 1 to 5. 1 equals low importance, 5 equals high importance.

Technical/functional competence _____

Managerial competence _____

Creativity and independence _____

Autonomy _____

Security _____

What Do You Want to Do?

IDENTIFY HIGH-POTENTIAL OCCUPATIONS Learning about your skills and interests is only step one in choosing an occupation. You also have to identify those occupations that fit your occupational orientations, skills, career anchors, and occupational preferences, and that are (preferably) in high demand in the years to come.

Here, use the Internet. The U.S. Department of Labor's online *Occupational Outlook Handbook* (<https://www.bls.gov/ooh/>) is updated each year, and provides detailed descriptions and information on hundreds of occupations.¹⁴⁴ O*NET (<https://www.onetonline.org/>) provides occupational demand projections. Another site here is <https://www.ncda.org/aws/NCDA/pt/sp/resources>.

Finding the Right Job

Your next step is to find a job that you want in the company and locale where you want to work.

Before leaving a current job, make sure leaving is what you want. Many people, dissatisfied at work, assume it must be the job or the occupation. But why switch from being a lawyer to a teacher, when it's not the profession but your law firm's 80-hour weeks that are the problem?

One must use a process of elimination. For example, you may like your occupation and employer, but not how your specific job is structured. Others may find their employers' ways of doing things are the problem. Or, it may in fact be the occupation.

In any case, the solution should fit the cause. For example, if, after thinking it through, you are satisfied with your occupation and where you work, but not with your job as it's organized now, try reconfiguring it. For example, seek to delegate or eliminate job functions you least prefer; volunteer for new duties; seek out a challenging "stretch assignment"; even "decluttering" your office may help.¹⁴⁵ If it's the specific employer, look elsewhere.

If you're involuntarily out of work for more than a few years, perhaps take extra care. One study followed a group of workers, some of whom became and stayed unemployed. These unemployed workers' personalities

changed. In before-and-after testing, the long-term unemployed showed reduced levels of agreeableness, conscientiousness, and openness. Don't hesitate to get some supportive counselling if need be.¹⁴⁶

JOB SEARCH TECHNIQUES Many people send out hundreds of resumes and get few replies. As we saw in Chapters 4 (Recruiting) and 5 (Selection) modern digital tools attract huge numbers of applicants and use software to screen out almost all of them.

As a result, most people seek jobs in a manner that's almost exactly opposite to the approach most experts deem best. For example, in surveys of human resource professionals, about 70% say the best way to get a job is through referrals, but less than 10% of job seekers see referrals as their best option. Instead they rely on job boards, which HR professionals rank much lower. Use sites such as LinkedIn and Facebook to help build your network, and to publicize your availability to potential job referrers.¹⁴⁷

PERSONAL CONTACTS *The best way to get job leads is usually through personal contacts (networking), such as friends, former colleagues, and relatives.*¹⁴⁸ Let as many responsible people as possible know that you're looking for a job and the kind of job you want. (Beware, though, if you don't want your job search getting back to your current boss. If that's the case, then just choose two or three close friends and ask them to be discreet checking around for you.)

No matter how close your friends are to you, by the way, you do not want to impose on them—they're not an employment agency, remember. It's usually best to just ask them for the name of someone they think you should talk to. Then you do the heavy lifting.

SOCIAL MEDIA In one survey, about 90% of HR professionals surveyed said it was "very important" or "somewhat important" for job seekers to be on LinkedIn, about 83% said the same for being on the job hunter's professional or association site, and about 60% cited Facebook.¹⁴⁹

Employers scour social media for recruits, so job seekers should make sure their names stand out. For example, create a Twitter presence. Those "Liking" a company on Facebook may receive early notice of job openings. Spend a few minutes each day on LinkedIn making new connections, and share links and advice with your LinkedIn

network.¹⁵⁰ Join LinkedIn industry groups to build visibility. Make sure your résumé is in PDF format and readable on a phone screen. To bring yourself to recruiters' attention, follow up on comments they make on their blogs or on industry websites. *Social résumés* provide snapshots of who the job searcher is by combining text material, photos, and samples of a person's work in infographic résumés posted on social media such as Twitter, LinkedIn, and blogs.¹⁵¹

Finally, remember that prospective employers may Google you before extending the offer, and ask for access to your Facebook and LinkedIn pages. Be careful what's on them.

ONLINE JOB BOARDS AND EMPLOYER WEBSITES Most large job search sites such as Monster.com have local-area search capabilities. Useful open-job aggregator sites include Indeed.com and SimplyHired.com. Idealist.com is good for nonprofit jobs, and there's U.S. Jobs for federal jobs.¹⁵² Use *The Wall Street Journal's* career Web site (www.careerjournal.com) for career advice and insights. Most big-city newspapers also have their own (or links to) online local job listings. In addition to job boards like Monster and specialized ones (like <https://www.efinancialcareers.com/>), virtually all large companies, industries, and crafts have their own specialized sites. For example, the American Marketing Association (<https://jobs.ama.org/>) and Financial Executives International (www.fei.org) have active job sites.

ANSWERING ADVERTISEMENTS Answering ads is a low-probability way to get a job, and this is particularly so as the level of jobs increases. Furthermore, applicant tracking services crunch through thousands of résumés in seconds, making it even harder to stand out by answering ads. Nevertheless, good sources of classified ads for professionals and managers include *The New York Times*, *The Wall Street Journal*, and specialized journals in your field that list job openings. All these sources also post the positions online, of course.

For application letters or résumés, be sure to create the right impression with the materials you submit; check the style, grammar, and neatness, and adapt your résumé to the job for which you are applying. In your cover letter or email, specifically address why your background and accomplishments fit the advertised position.

Be careful in replying to blind ads. Some recruiters and employers run ads even when no

position exists just to gauge the market, and there is also some risk of blundering into responding to your own firm.

EMPLOYMENT AGENCIES Agencies are especially good at placing people in jobs paying up to about \$80,000, but they can be useful for higher-paying jobs as well. The employer usually pays the fees for professional and management jobs. Assuming you know the job you want, review a few back issues of your paper's Sunday classified ads and sites like LinkedIn to identify agencies that handle the positions you want. Approach three or four initially, preferably in response to specific ads, and avoid signing any contract that gives an agency the exclusive right to place you.

States' one-stop career centers can be helpful. In them, job seekers can not only apply for unemployment benefits, but also register with the state job service, talk to career counselors, use computers to write résumés and access the Internet, take tests, and use career libraries offering books and videos on various employment topics. In some centers job hunters can make use of free computers and photocopiers to facilitate job searches.

EXECUTIVE RECRUITERS Employers retain executive recruiters to seek out top talent for their clients; employers always pay any fees. Recruiters do not do career counseling, but if you know the job you want, it pays to contact a few (but they usually use contacts, and LinkedIn to find passive candidates). Send/email your résumé and a cover note summarizing your objective in precise terms, including job title and the size of company desired, work-related accomplishments, current salary, and salary requirements. (Beware, because some firms call themselves executive search or career consultants but do no searches: In return for an (often hefty) fee they help you manage your search. Remember that with a search firm you never pay a fee.)

CAREER COUNSELORS Career counselors will not help you find a job per se; rather, they specialize in aptitude testing, career counseling, and resume preparation. Search under "Career Counseling" or "Vocational Guidance." Their services usually cost \$500 or so and may include some psychological testing and interviews with an experienced career counselor. Check the firm's services, prices, and history as well as the credentials of the person you will be dealing with.

EXECUTIVE SEARCH CONSULTANTS Executive marketing consultants manage your job-hunting campaign. They generally are not recruiters and do not have jobs to fill. Depending on the services you choose, your cost will range from \$600 to \$5,000 or more. The process may involve months of weekly meetings. Services include résumé and letter writing, interview skill building, and developing a full job-hunting campaign. Before approaching a consultant, it's advisable to do your own self-appraisal (as explained in this appendix) and read books like Richard Bolles's *What Color Is Your Parachute?*

Also do your due diligence, and remember these consultants are *not* recruiters and will not get you a job—you must do the legwork. Then check the Better Business Bureau, and decide which of these firms (if any) is for you.

WRITING YOUR RÉSUMÉ Your résumé usually still plays a big role in determining whether you get the interview. Of course, don't produce a slipshod résumé: Avoid overcrowded pages, hard-to-read copies, typographical errors, and other problems of this sort. And do not use a make-do résumé. Produce a new résumé for each job you are applying for, gearing your job objective and accomplishments to the job you want. Here are some résumé pointers, as offered by employment counselor Richard Payne and other experts.¹⁵³

Start your résumé with your name, home and e-mail and website (if any) addresses, and home or cell phone number. Next, state your *job objective*. Gear this to the job you're applying for. It should summarize in one sentence the specific position you want, where you want to do it (type and size of company), and a special reason an employer might have for wanting you to fill the job. For example, "Marketing manager in a medium-size e-commerce company in a situation in which strong creative skills would be valuable."

For each of your previous jobs, write a paragraph that shows job title, whom (job title) you reported to, who reported to you, how many people reported to you, the operational and human resource budgets you controlled, and what your job entailed (in one sentence).

Your accomplishments should be the heart of your résumé. These show for each of your previous jobs: (1) a concrete action you took and why you took it and (2) the specific result of your action—the "payoff." For example, "As production supervisor, I introduced a new process to replace costly

hand soldering of component parts. The new process reduced assembly time per unit from 30 to 10 minutes and reduced labor costs by over 60%." Use several of these statements for each job.

Keep your résumé to two pages or less, and list education, military service (if any), and personal background (hobbies, interests, associations) on the last page. For most job applications today, it's important that the résumé is electronically readable. Applicant tracking systems scan through résumés, screening out those that don't seem to match (often based on the absence of certain key words). Therefore, present your qualifications using powerful key words appropriate to the job or jobs for which you are applying. For example, a trainer might use key words and phrases such as: *computer-based training*, *interactive video*, and *group facilitator*.

If you post your résumé online, experts suggest taking precautions. At a minimum, date your résumé (in case it lands on your boss's desk 2 years from now). Also insert a disclaimer forbidding unauthorized transmission by headhunters; consider posting a "confidential" resume on a job board listing your capabilities but not your name or employer—you can be reached via the job board. Scammers will use someone's online resume to pretend to be an employer, and then request bank account information "to facilitate salary direct deposits".¹⁵⁴

ONLINE BIOS Employers often encourage or require their professionals and managers to post brief biographies on corporate intranets or websites. These bios let other employees know about their colleagues' expertise; they can also attract recruiters' inquiries. Tips for writing such bios include:¹⁵⁵

Fill it with details. "The more information you enter, the more likely a person seeking someone with your background will find you."

Avoid touchy subjects. For example, avoid religion and politics.

Look the part. Your profile may require posting photos. If so, dress in professional attire.

Make it search friendly. Make sure your profile contains the key words you think someone searching for someone with your background and expertise would be looking for, such as *manager*, *supervisor*, or *engineer*.

Use abbreviations. Abbreviations are important. For example, someone searching the site might more readily punch in "MBA" than "Masters in Business Administration."

Say it with numbers. Describe specifically how your work has contributed to your current employer's and past employer's bottom lines.

Proofread. Carefully proofread your online profile, as you would your résumé.

Handling the Interview

You have done all your homework, and now you have a job interview scheduled. What must you do to excel in the interview? First review our "Interview Guide for Interviewees" on page 261. Then, here are other suggestions.

PREPARE Before the interview, learn about the employer, the job, and the people doing the recruiting. Search the Internet to find out what's happening in the industry. Know that you may have a "job tryout," in which you'll have to show how well you can do aspects of the job.¹⁵⁶ Many locales prohibit employers from asking applicants about their salary histories, but realistically be prepared to answer when the interviewer asks for your salary requirements.

FIRST IMPRESSIONS Interviewers usually jump to conclusions about candidates during the first few seconds of the interview. Therefore, you really do have just one chance to make a good first impression. Appropriate clothing, good grooming and posture, eye contact, a firm handshake, and energy are important.

UNCOVER THE INTERVIEWER'S NEEDS Spend as little time as possible answering your interviewer's first questions and as much time as possible getting the person to describe his or her needs—what the person is looking to get accomplished and the type of person needed. Use open-ended questions, such as "Could you tell me more about that?"

RELATE YOURSELF TO THE PERSON'S NEEDS Once you understand the person your interviewer is looking for and the sorts of problems he or she needs solved, you are in a good position to describe your own accomplishments in terms of the interviewer's needs.¹⁵⁷ Start by saying something like, "One of the problem areas you've indicated is important to you is similar to a problem I once faced." Then state the problem, describe your solution, and reveal the results.

MAKE A GOOD APPEARANCE AND SHOW ENTHUSIASM Appearance, a firm handshake, and visual cues such as looking the interviewer in the eyes are crucial. Remember that studies of interviews show that in almost 80% of the cases, interviewers make up their minds about the applicant during the first few moments of the interview. A good first impression may turn bad during the interview, but it is unlikely. Bad first impressions, however, are almost impossible to overcome.

NONVERBAL BEHAVIOR AND IMPRESSION MANAGEMENT Remember (Chapter 7) that your *nonverbal* behavior will have a big impact on your interview rating. In one study, 23 of the 26 human resources specialists who saw the high-eye-contact, high-energy-level candidate would have invited him or her for a second interview. *None* who saw the low-eye-contact, low-energy-level candidate would have done so.

Similarly, **self-promotion (promoting one's own skills and competence)** is strongly related to the interviewer's perceptions of candidate–job fit. Some interviewees use "ingratiation" to persuade interviewers to like them: For instance, they praised the interviewers or agreed with their opinions, thus signaling they shared similar beliefs.

Some candidates check with recruiters to determine their status, which can be a turnoff. Something more subtle, like sending a link to an article touching on something you discussed with the recruiter, is usually better.¹⁵⁸

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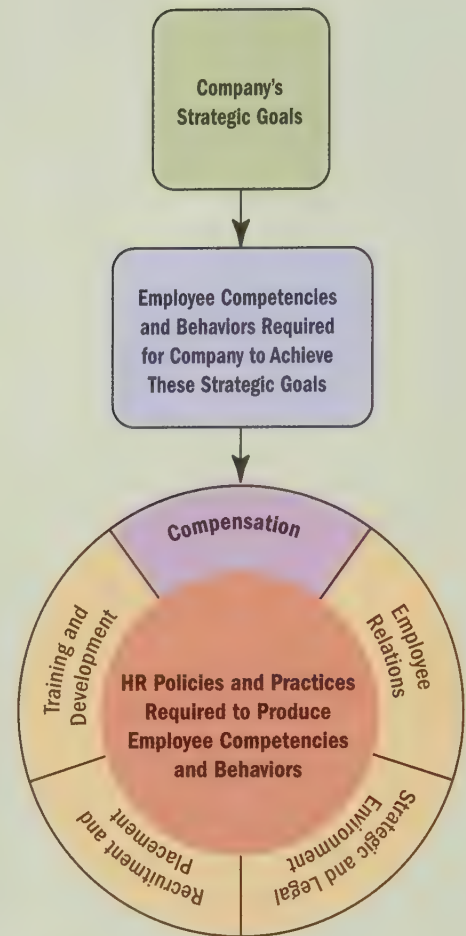
Establishing Strategic Pay Plans

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 11-1** **List** the basic factors determining pay rates and policies.
- 11-2** **Define and give** an example of how to conduct a job evaluation.
- 11-3** **Explain** in detail how to establish a market-competitive pay plan.
- 11-4** **Explain** how to price managerial and professional jobs.
- 11-5** **Explain** the difference between competency-based and traditional pay plans.
- 11-6** **Describe** the importance of total rewards for improving employee engagement.

When new airline companies entered in the Indian aviation market and started hiring employees, the already existing players including Air India faced a challenge. They had to review pay plans to retain their employees, particularly the pilots. Later in early 2019, when Jet Airways failed and talent was available, should competing airlines have redesigned pay plans to hire at lesser pay?^{1&2} Some of them did. In this chapter, we will see how companies improve performance and boost profits by designing compensation plans.



WHERE ARE WE NOW . . .

Once you've appraised and coached your employees, they of course expect to be paid. Prudent employers don't set pay rates arbitrarily. Each employee's pay should make sense in terms of what other employees earn, and this requires a pay plan. The main purpose of this chapter is to show you how to establish a pay plan. The main topics we cover are **Basic Factors in Determining Pay Rates, Job Evaluation Methods, How to Create a Market-Competitive Pay Plan, Pricing Managerial and Professional Jobs, Contemporary Topics in Compensation, and Total Rewards for Employee Engagement**. The next chapter focuses specifically on pay-for-performance and incentive plans.

LEARNING OBJECTIVE 11-1

List the basic factors determining pay rates and policies.

employee compensation

All forms of pay or rewards going to employees and arising from their employment.

direct financial payments

Pay in the form of wages, salaries, incentives, commissions, and bonuses.

indirect financial payments

Pay in the form of financial benefits such as insurance.

Basic Factors in Determining Pay Rates

Employee compensation includes all forms of pay going to employees and arising from their employment. It has two main components, **direct financial payments** (wages, salaries, incentives, commissions, and bonuses) and **indirect financial payments** (financial benefits like employer-paid insurance and vacations).

In turn, employers can make direct financial payments to employees based on increments of time or based on performance. Time-based pay still predominates. Blue-collar and clerical workers receive hourly or daily wages, for instance. Others, like managers or Web designers, tend to be salaried and paid weekly, monthly, or yearly.

The second direct payment option is to pay for performance. For example, piecework ties compensation to the amount of production (or number of “pieces”) the worker turns out. Sales commissions tie pay to sales. Many employers’ pay plans combine time-based pay and incentives.

In this chapter, we explain how to formulate plans for paying employees a time-based wage or salary. Subsequent chapters cover performance-based financial incentives and bonuses (Chapter 12) and employee benefits (Chapter 13).

Several factors should influence any pay plan’s design. These include strategic policy considerations, as well as equity, legal, and union considerations.

Aligning Total Rewards with Strategy

The compensation plan should first advance the firm’s strategic aims—management should produce an *aligned reward strategy*. This means creating a compensation package that produces the employee behaviors the firm needs to achieve its competitive strategy.³ Put another way, there should be a clear “line of sight” between each reward and specific business goals.

We will see that many employers formulate a total rewards strategy to support their strategic aims. *Total rewards* encompass traditional pay, incentives, and benefits, but also “rewards” such as more challenging jobs (job design), career development, and recognition.

Table 11-1 lists illustrative questions to ask when crafting a strategy-oriented pay policy.

HR in Action at the Hotel Paris Even a casual review by Lisa Cruz and the CFO made it clear that the Hotel Paris’s compensation plan wasn’t designed to support the firm’s new strategic goals. To see how they handled this, see the case on pages 434-435 of this chapter.

Equity and Its Impact on Pay Rates

In studies at Emory University, researchers investigated how capuchin monkeys reacted to inequitable pay. Some monkeys got sweet grapes in return for trading pebbles; others got cucumber slices. If a monkey receiving a cucumber slice saw a neighbor get grapes, it slammed down the pebble or refused to eat.⁴ It seems even lower primates may demand fair treatment in pay.

Among humans, too, the *equity theory of motivation* postulates that people are motivated to maintain a balance between what they perceive as their contributions and their rewards. Equity theory states that if a person perceives an inequity, a tension or drive will develop that motivates him or her to reduce the tension and perceived inequity. Research tends to support equity theory, particularly as it applies to those underpaid.⁵ For example, in one study

turnover of retail buyers was significantly lower when the buyers perceived fair treatment in rewards and in how employers allocated rewards.⁶ Overpaying can sometimes backfire, too, perhaps “due to feelings of guilt or discomfort.”⁷

In compensation, one can address *external*, *internal*, *individual*, and *procedural* equity.⁸

TABLE 11-1 Do Our Compensation Policies Support Our Strategic Aims?

- What are our strategic aims?
- What employee behaviors and skills do we need to achieve our strategic aims?
- What compensation policies and practices—salary, incentive plans, and benefits—will help to produce the employee behaviors we need to achieve our strategic aims?

- **External equity** refers to how a job’s pay rate in one company compares to the job’s pay rate in other companies.
- **Internal equity** refers to how fair the job’s pay rate is when compared to other jobs within the same company (for instance, is the sales manager’s pay fair, when compared to what the production manager earns?).
- **Individual equity** refers to the fairness of an individual’s pay as compared with what his or her coworkers are earning for the same or very similar jobs within the company, based on each person’s performance.
- **Procedural equity** refers to the “perceived fairness of the processes and procedures used to make decisions regarding the allocation of pay.”⁹

Managers address equity issues in various ways. They use salary surveys (surveys of what other employers are paying) to monitor and maintain external equity. They use job analysis and comparisons of each job (“job evaluation”) to maintain internal equity. They use performance appraisal and incentive pay to maintain individual equity. And they use communications, grievance mechanisms, and employees’ participation to help ensure that employees view the pay process as procedurally fair. Some firms administer attitude surveys to monitor employees’ pay satisfaction. Questions typically include, “How satisfied are you with your pay?” and “What factors do you believe we used to determine your pay?”¹⁰

To head off discussions that might prompt feelings of internal inequity, some firms maintain strict secrecy over pay rates, while others publicize them.¹¹ However, “open pay” policies can backfire. In one firm, employees vigorously opposed paying a high salary to a great candidate unless everyone else’s pay went up, too, for instance.¹² As of now, the research concerning pay secrecy is inconclusive, and most employers don’t have open pay policies.¹³ And of course for external equity, online pay sites like Salary.com preclude secrecy. Short of “open pay,” some experts advise at least explaining how the company computes compensation.¹⁴

Davis-Bacon Act (1931)

A 1931 law that sets wage rates for laborers employed by contractors working for the federal government.

Walsh-Healey Public Contract Act (1936)

A 1936 law that requires minimum wage and working conditions for employees working on any government contract amounting to more than \$10,000.



Legal Considerations in Compensation

Employers do not have free rein in designing pay plans. Various laws specify things like minimum wages, overtime rates, and benefits.¹⁵ For example, the **1931 Davis-Bacon Act** lets the secretary of labor set wage rates for laborers and mechanics employed by contractors working for the federal government. The **1936 Walsh-Healey Public Contract Act** sets basic labor standards for employees working on any government contract that amounts to more than \$10,000. It contains minimum wage, maximum hour, and safety and health provisions, and requires time-and-a-half pay for work over 40 hours a week. **Title VII of the 1964**

Civil Rights Act makes it unlawful for employers to discriminate against any individual with respect to hiring, compensation, terms, conditions, or privileges of employment because of race, color, religion, sex, or national origin.¹⁶ We'll look next at other important compensation-related laws.

Code of Wages Bill, 2017 In India, wage laws have been distributed across many legislations, which was creating difficulty in their implementation. Hence, the Indian government had constituted the Second National Commission on Labor to examine the existing labor laws and practices in the country. One of its recommendations was to consolidate the existing labor laws into five comprehensive codes.¹⁷ On 10 August 2017, the government, thus, introduced the Code of Wages Bill, 2017, with the aim to amalgamate four major wage legislations, which are: Minimum Wages Act, 1948; Payment of Wages Act, 1936; Payment of Bonus Act, 1976; and Equal Remuneration Act, 1976.¹⁸

A number of Indian workers are employed in the unorganized sector. The Unorganized Worker's Social Security Act, 2008, was an effort by the government to legislate social security for unorganized workers. This act has been criticized for not addressing all pressing issues (like lack of training, gender justice, and ensuing living wages) of the unorganized sector.¹⁹ Now, a new labor code on social security and welfare has been proposed, and it's expected to address some of the issues, though more serious concerns still remain.²⁰

Title VII of the 1964 Civil Rights Act

This act makes it unlawful for employers to discriminate against any individual with respect to hiring, compensation, terms, conditions, or privileges of employment because of race, color, religion, sex, or national origin.

Fair Labor Standards Act (1938)

This 1938 act provides for minimum wages, maximum hours, overtime pay, and child labor protection. The law, amended many times, covers most employees.

THE 1938 FAIR LABOR STANDARDS ACT The **Fair Labor Standards Act**, originally passed in 1938 and since amended many times, contains minimum wage, maximum hours, overtime pay, equal pay, record-keeping, and child labor provisions that are familiar to most working people.²¹ It covers virtually all U.S. workers engaged in the production and/or sale of goods for interstate and foreign commerce. In addition, agricultural workers and those employed by certain larger retail and service companies are included. State fair labor standards laws cover most employers not covered by the Fair Labor Standards Act (FLSA).²²

One familiar provision governs *overtime pay*. It says employers must pay overtime at a rate of at least one-and-a-half times normal pay for any hours worked over 40 in a workweek. Thus, if a worker covered by the act works 44 hours in one week, he or she must be paid for 4 of those hours at a rate equal to one-and-a-half times the hourly or weekly base rate the person would have earned for 40 hours.²³ For example, if the person earns \$12 an hour (or \$480 for a 40-hour week), he or she would be paid at the rate of \$18 per hour (\$12 times 1.5) for each of the 4 overtime hours worked, or \$72 (\$18 times 4) for the extra 4 hours. If the employee instead receives time off for the overtime hours, the employer must compute the number of hours granted off at the one-and-a-half-times rate (6 hours off for the 4 hours of overtime in our case), in lieu of overtime pay. The FLSA mandates special damages against employers who pressure workers to work extra hours unpaid.²⁴



KNOW YOUR EMPLOYMENT LAW

The Workday

Employers should be vigilant for employees who arrive early or leave late, lest the extra time spent on the property obligate it to compensate the employee for that time. For example, a diligent employee may get dropped off at work early and spend, say, 20 minutes before his or her day actually starts doing work-related

chores, like compiling a list of clients to call that day. Tyson Foods recently paid over \$12 million to resolve suits by workers who said they should have been paid for time spent putting on and removing their protective work gear.²⁵ While there is no hard and fast rule, some courts follow the rule that employees who arrive 15 or more minutes early are presumed to be working unless the employer can prove otherwise.²⁶ If using time clocks, employers should instruct employees not to clock in more than 5–10 minutes early (or out 5–10 minutes late).

Smart phones give employers further reason to meticulously record workers' hours. A Department of Labor app lets employees track their work hours.²⁷ The Chicago Police Department distributed smart phones to its officers. One officer subsequently sued, claiming he wasn't paid overtime for the hours he spent using his smart phone off the clock. Vendors such as Pacific Timesheet (www.pacifictimesheet.com) provide mobile payroll time sheets.²⁸ Outside the office, employees can fill these in via their iPhones or similar devices.²⁹ New time clocks reduce "buddy punching" with instant photos and biometric sensors.³⁰ ■

The FLSA also sets a *minimum wage*. This sets a floor for employees covered by the act (and usually bumps up wages for practically all workers when Congress raises the minimum). The minimum wage was \$7.25 in 2018. Many states have their own minimum wage. For example, the minimum wage as of 2018 was \$10.50 in California and \$11.00 Massachusetts.³¹ New York State is debating raising its minimum wage to \$15 per hour. Various cities have set their own (higher) minimum wages.³² Under new federal rules, workers on federal contracts earn a minimum of \$10.10 per hour.³³

FLSA *child labor provisions* prohibit employing minors between 16 and 18 years old in hazardous occupations, and carefully restrict employment of those under 16.

A great many employers today pay people as "independent contractors" rather than as employees. The Know Your Employment Law feature (page 354) explains about paying this type of worker.

EXEMPT/NONEXEMPT Specific categories of employees (workmen in the Indian context) are *exempt* from many legislations, including the Industrial Disputes Act, 1947, or certain provisions of the act, and particularly from overtime provisions. In the Indian context, exemptions are based on threshold wage/salary, master-servant relationship, and job characteristics or nature of job.

INEQUITY AND THE MINIMUM WAGE³⁴ Jamie Dimon, Chairman and CEO of JP Morgan Chase & Company wrote an article for *The New York Times*; he argued that years of wage stagnation had led to income inequality, with some people earning vastly more than others. Several 2016 us presidential candidates made similar arguments.³⁵ Similar debate has happened in India also. Analysis of CEO pay in India and its comparison with employees paid at median range has placed the gap at approximate 1200 times during 2016-17. Same time, gap of Public Sector CEOs and median employee is 3 to 4 times.³⁶ The gap between the highest and the lowest level worker, paid minimum wage will be definitely higher.³⁷ The high level of wage inequality prevailing in India has been recognized by policy makers and industry leaders. In February 2019, The Niti Aayog CEO commented that Indian economy has a wage problem and lacks high quality jobs, and the situation is serious in the informal economy.³⁸

While some industry leaders have voiced opinion against the growing gap and the low wage situation at the bottom, there are others who justify the high salaries paid to top management.



KNOW YOUR EMPLOYMENT LAW

The Contract Worker and Independent Contractor

Whether someone is an employee or an *independent contractor* is a continuing concern for employers.³⁹ For example, a federal court ruled that most of FedEx's roughly 15,000 owner-operator delivery people were independent contractors, not employees.⁴⁰

Why claim that someone is an independent contractor? Because the FLSA's overtime and most other requirements do not apply, and the employer need not pay unemployment compensation, payroll taxes, Social Security taxes, or city, state, and federal income taxes or compulsory workers' compensation for that worker.

The problem is that many so-called independent contractor relationships aren't independent contractor relationships. In general, an individual is an independent contractor if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done.⁴¹ However, there is no single rule or test. Instead, courts look at the total situation. The major consideration is this: The more the employer controls what the worker does and how he or she does it, the more likely it is that the courts will find the worker to be an employee. Figure 11-1 lists some factors courts will consider. The IRS lists rules at its Web site.⁴² Uber faces lawsuits that its drivers are employees, not independent contractors. ■

1963 EQUAL PAY ACT Specifically, if the work requires equal skills, effort, and responsibility and involves similar working conditions, employees of both sexes must receive equal pay, unless the differences in pay stem from a seniority system, a merit system, the quantity or quality of production, or "any factor other than sex."

OTHER LEGISLATION AFFECTING COMPENSATION Various other laws influence compensation decisions. For example, the *Age Discrimination in Employment Act* prohibits age discrimination against employees who are 40 years of age and older in all aspects of employment, including compensation.⁴³ The *Americans with Disabilities Act* prohibits discrimination against qualified persons with disabilities in all aspects of employment. The *Family and Medical Leave Act* aims to entitle eligible employees, both men and women, to take up to 12 weeks of unpaid, job-protected leave for the birth of a child or for the care of a child, spouse, or parent. And various executive orders require employers that are federal government contractors or subcontractors to not discriminate in certain employment areas, including compensation.

Each state has its own *workers' compensation laws*. Among other things, these aim to provide prompt, sure, and reasonable income to victims of work-related accidents. The *Social Security Act of 1935* (as amended) provides for unemployment compensation for workers unemployed through no fault of their own for up to 26 weeks, and for retirement benefits. (We'll discuss Social Security benefits in a later chapter.) The federal wage garnishment law limits the amount of an employee's earnings that employers can withhold (garnish) per week, and protects the worker from discharge due to garnishment.

Equal Pay Act

A 1963 amendment to the Fair Labor Standards Act designed to require equal pay for women doing the same work as men.

FIGURE 11-1 Independent Contractor or Employee Checklist

Source: Adapted from information in IRS, Employer's Supplemental Tax Guide, <https://www.irs.gov/pub/irspdf/p15a.pdf> accessed June 6, 2017.

The main question is, how much control does the employer exert over the person at work? Facts that provide evidence of the degree of control/independence fall into three categories: behavioral control, financial control, and relationship of the parties. Affirmative answers below generally suggest "independent contractor."

Behavioral control: Does the business direct and control how the worker does the task, such as:	Independent Contractor	Employee
1. When and where to do the work.		
2. What tools or equipment to use.		
3. What workers to hire or to assist with the work.		
4. Where to purchase supplies and services.		
5. Whether the business has retained the right to control the details of a worker's performance or instead has given up that right.		
<i>Financial control: Does the business control the business/financial aspects of the worker's job, such as:</i>		
6. The extent to which the worker has unreimbursed business expenses.		
7. The extent of the worker's investment.		
8. The extent to which the worker makes his or her services available to other businesses in the relevant market.		
9. Whether the worker is not generally guaranteed a regular wage amount for an hourly, weekly, or other period of time.		
10. The extent to which the worker can realize a profit or loss.		
<i>Questions regarding the parties' relationship include:</i>		
11. Whether the business does not provide the worker with employee-type benefits, such as insurance, a pension plan, vacation pay, or sick pay.		
12. Whether there's no expectation that the relationship will continue indefinitely, rather than for a specific project or period.		

■ HR AND THE GIG ECONOMY: ARE GIG WORKERS EMPLOYEES OR INDEPENDENT CONTRACTORS?

A few years ago, Uber and Lyft drivers filed suit in California, demanding to be treated as employees rather than independent contractors. The companies contend they're independent contractors who can work (or not) as much as they want, start and stop when they want, and use their own cars.

Yet the answer is not clear-cut. Although it's true that there's a lot "independent" about what the drivers do, the drivers' lawyers say that Lyft and Uber control what the drivers do at work. For example, algorithms and systems control what rides the drivers can accept or decline, the routes they take, how much they can earn, and even how they're evaluated (below an average rating of about 4.5 stars, a driver was in danger of deactivation.) The cases settled out of court. Uber agreed to pay about \$100 million to drivers in certain states and to let them solicit tips; however, the settlement left the drivers as independent contractors.

Similar litigation continues.⁴⁴ Two federal appellate courts recently held that some FedEx drivers were employees, not independent contractors. In another case, an arbitrator ruled Uber drivers were independent contractors. A recent California decision may make it easier for drivers to press for employee status.⁴⁵

Even in traditional workplaces there was some ambiguity about how to distinguish between independent contractors and employees. Today, gig workers are often free to come and go as they please and to quit any time, but at work computer algorithms tightly control their efforts. It's therefore even more difficult to distinguish between employees and independent contractors. Congress seems less inclined to curtail independent contractor use.⁴⁶ It is considering new gig economy laws but recently had not taken action.⁴⁷ Expect more lawsuits.

Union Influences on Compensation Decisions

Unions and labor relations laws also influence pay plan design. In unionized organizations in India, Unions play an important role in setting the compensation rates through a collective bargaining process. In sectors like banking, insurance, steel, ports, etc., compensation negotiations happen at national level between Industry Associations and representative representative unions or their confederations. Examples of employers association include Indian Banks Association (IPA) representing PSU and few private banks, and Indian Ports Association representing major ports. The new private banks and ports which are non-unionized, are not part of the negotiations. They adopt an independent mechanism and depend on market surveys. Unions also influence minimum wages by becoming part of Minimum Wage Committees established under the Minimum Wages Act. The new Wage Code (Code on Wages 2019) proposes establishment of tripartite committees [Section 8(2)], including unions to represent employees.

Pay Policies

The employer's compensation strategy will manifest itself in *pay policies*. For example, it might be the policy of a top hospital to pay nurses 20% above the market wage.

Employers need policies on a variety of compensation-related matters. These would include, for instance, how to set base salary (below, at, or above market rates); what employees (if any) can get stock options; how to award salary increases; how to handle leaves and holidays; and whether to emphasize seniority or performance through annual raises (for example, it takes many years for a government employee to progress through the government's pay scale). The accompanying Wegmans Food Markets feature illustrates how pay policies impact a company's performance.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Wegmans Food Markets

Strategic compensation management means formulating a total rewards package that produces the employee skills and behaviors that the company needs to achieve its strategic goals.

Wegmans exemplifies this. It competes in the retail food sector, where profit margins are thin and where online competitors and giants like Walmart drive costs and prices down. The usual competitor's reaction is to cut employee benefits and costs.⁴⁸ Wegmans takes a different approach. Number 2 on Fortune's 100 Best Companies to Work For,⁴⁹ Wegmans views its workforce as an integral part of achieving Wegmans's strategic aims of *optimizing service while controlling costs by improving systems and productivity*. For example, one dairy department employee designed a new way to organize the cooler, thus improving ordering and inventory control.⁵⁰ The firm offers above-market pay rates, affordable health insurance, and a full range of employee benefits.⁵¹ Wegmans's pay policies thus aim to produce exactly the sorts of high-productivity employee behaviors the company needs to achieve its strategic aims.

It's likely that its pay policies are one reason for Wegmans's exceptional profitability. For example, its employee turnover (about 6% for full-timers) is well below the industry's overall average of about 47%.⁵² Its stores (which at about 120,000 square feet are much larger than competitors') average about \$950,000 a week in sales (compared to a national average of \$361,564), or about \$49 million in sales annually, compared with a typical Walmart store's grocery sales of \$23.5 million in sales.⁵³ As Wegmans's human resource head has said, good employees assure higher productivity, and that translates into better bottom-line results.⁵⁴

GEOGRAPHY How to account for geographic differences in cost of living is another big pay policy issue.

Employers handle cost-of-living differentials for transferees in several ways. One is to pay a differential for ongoing costs in addition to a one-time allocation. For example, one employer pays a differential of ₹6,000 per year to people earning ₹35,000 to ₹45,000 per month whom it transfers from Jaipur to Mumbai or Delhi. Others simply raise the employee's base salary. Indian organizations generally give two components, House Rent Allowance (HRA) which varies from location to location and City Compensation Allowance (CCA) to handle cost of living differentials. Other common allowances based on geography include paying hill area allowance, difficult area allowance, etc. The accompanying feature on compensating expatriate employees expands on this.

■ IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Compensating Expatriate Employees

The question of cost-of-living differentials has particular significance to multinational firms, where costs range widely from, say, France to Zambia. The challenge is in maintaining the expatriate's standard of living abroad.⁵⁵

How should multinationals compensate expatriate employees—those it sends overseas? Two basic international compensation policies are popular: the *balance sheet* or *home-based plan*, and the *host-based plan*.⁵⁶

With a *home-based salary plan*, an international transferee's base salary reflects his or her home country's salary. The employer then adds allowances for cost-of-living differences—housing and schooling costs, for instance, to “make the employee whole.” Among other advantages, this approach avoids having to change the employee's home-based salary.

In the *host-based plan*, the firm ties the international transferee's base salary to the host country's salary structure. In other words, the manager from New York who is sent to France would have his or her base salary changed to the prevailing base salary for that position in France, rather than keep the New York base salary. The firm often tacks on cost-of-living, housing, schooling, and other allowances here as well.

Most multinational enterprises set expatriates' salaries according to the *home-based salary plan*. (Thus, a French manager assigned to Kiev by a U.S. multinational will generally have a base salary that reflects the salary structure in the manager's home country, in this case France.) In addition, the person typically gets allowances including cost-of-living, relocation, housing, education, and hardship allowances (for more challenging countries). The employer also usually pays any extra tax burdens resulting from taxes the manager is liable for over and above those he or she would have to pay in the home country.

LEARNING OBJECTIVE 11-2

Define and give an example of how to conduct a job evaluation.

Job Evaluation Methods

Employers use two basic approaches to setting pay rates: *market-based approaches* and *job evaluation methods*. Many firms, particularly smaller ones, simply use a *market-based* approach. Doing so involves conducting formal or informal salary surveys to determine what others in the relevant labor markets are paying for particular jobs. They then use these figures to price their own jobs. *Job evaluation methods* involve assigning values to each of the company's jobs. This process helps produce a pay plan in which each job's pay is equitable based on what other employers are paying for these jobs *and* based on each job's value to the employer.⁵⁷

Job evaluation is a formal and systematic comparison of jobs to determine the worth of one job relative to another. Job evaluation aims to determine a job's relative worth. Job evaluation eventually results in a *wage or salary structure* or hierarchy (this shows the pay rate for various jobs or groups of jobs). The basic principle of job evaluation is this: Jobs that require greater qualifications, more responsibilities, and more complex job duties should receive more pay than jobs with lesser requirements.⁵⁸ The basic job evaluation procedure is to compare jobs in relation to one another—for example, in terms of required effort, job complexity, and skills. Suppose you know (based on your job evaluation) the relative worth of the key jobs in your firm. You then conduct a salary survey to see what others are paying for similar jobs. By combining the information from the job evaluation and from the salary survey, you are on your way to being able to create a **market-competitive pay plan**—one where your pay rates are equitable both internally (based on each job's relative value) and externally (in other words, when compared with what other employers are paying).

Compensable Factors

You can use two basic approaches to compare the worth of several jobs. First, you might decide that one job is more important than another is, and not dig any deeper. As an alternative, you could compare the jobs by focusing on certain basic factors the jobs have in common. Compensation management specialists call these **compensable factors**. They are the factors that establish how the jobs compare to one another, and that determine the pay for each job.

Some employers develop their own compensable factors. However, most use factors popularized by packaged job evaluation systems or in some countries like U.S. by federal legislation. IIMA team developed an open source job

job evaluation

A systematic comparison done in order to determine the worth of one job relative to another.

market-competitive pay plan

Pay plan where pay rates are equitable both internally (based on each job's relative value) and externally (in other words when compared with what other employers are paying).

compensable factor

A fundamental, compensable element of a job, such as skills, effort, responsibility, and working conditions.

point evaluation model to compare relative worth of jobs, for the Seventh Central Pay Commission, Government of India.⁵⁹ The model was tested across 40 jobs roles in government, PSUs and private sector and helped to comparatively position jobs. For example, the Equal Pay Act U.S. uses four compensable factors—skills, effort, responsibility, and working conditions. The method popularized by the Hay consulting firm emphasizes three factors: know-how, problem solving, and accountability. Many Indian companies Walmart uses knowledge, problem-solving skills, and accountability requirements.

Choosing compensable factors plays a big role in job evaluation. You usually compare each job with all comparable jobs using the same compensable factors. However, the compensable factors you use depend on the job and the job evaluation method. For example, “decision making” might make sense for a manager’s job, but not for a cleaner’s job.⁶⁰

Preparing for the Job Evaluation

Job evaluation is a judgmental process and demands close cooperation among supervisors, HR specialists, and employees and union representatives. The initial steps include identifying the need for the program, getting cooperation, and then choosing an evaluation committee. The committee then performs the actual evaluation.

Identifying the need for job evaluation shouldn’t be difficult. For example, dissatisfaction reflected in high turnover, work stoppages, or arguments may result from paying employees different rates for similar jobs. Managers may express uneasiness with an informal way of assigning pay rates.

Employees may fear that a systematic evaluation of their jobs may reduce their pay rates, so *getting employees to cooperate* in the evaluation is important. For example, you can tell employees that because of the impending job evaluation program, pay rate decisions will no longer be made just by management whim, and that no current employee’s rate will be adversely affected because of the job evaluation.

The job evaluation committee typically includes at least several employees, and has the important task of evaluating the worth of each job using compensable factors.

ImagesBazaar / Alamy Stock Photo



Finally, *choose a job evaluation committee*. The committee usually consists of about five members, most of whom are employees. Top Management has the right to serve on such committees, but employees may view this with suspicion. However, a human resource specialist can usually be justified to provide expert assistance. Union representation is possible. In most cases, though, the union's position is that it is accepting the results of the job evaluation only as an initial decision and is reserving the right to appeal actual job pricing decisions through grievance or bargaining channels.⁶¹ Once appointed, union representatives should receive a manual explaining both the job evaluation process and how to conduct the job evaluation.

The evaluation committee then performs three main functions. First, it usually identifies 10 or 15 key **benchmark jobs**. These will be the first jobs they'll evaluate and will serve as the anchors or benchmarks against which the relative importance or value of all other jobs is compared. Next, the committee may select *compensable factors* (although the human resources department will usually choose these). Finally, the committee performs its most important function—actually *evaluating the worth of each job*. For this, the committee will probably use one of the following methods: ranking, job classification, or point method.

benchmark job

A job that is used to anchor the employer's pay scale and around which other jobs are arranged in order of relative worth.

Job Evaluation Methods: Ranking

The simplest job evaluation method ranks each job relative to all other jobs, usually based on some overall factor like “job difficulty.” There are several steps in the job **ranking method**.

ranking method

The simplest method of job evaluation that involves ranking each job relative to all other jobs, usually based on overall difficulty.

1. **Obtain job information.** Job analysis is the first step. Here job descriptions for each job are prepared, and the information they contain about the job's duties is usually the basis for ranking jobs. (Sometimes job specifications are also prepared. However, the ranking method usually ranks jobs based on the whole job, rather than on several compensable factors. Therefore, job specifications, which tend to list job demands in terms of compensable factors such as problem solving, decision making, and skills, are not as important with ranking as they are for other job evaluation methods.)
2. **Select and group jobs.** It is usually not practical to make a single ranking for all jobs in an organization. The usual procedure is to rank jobs by department or in clusters (such as factory workers or clerical workers). This removes the need for direct comparison of, say, factory jobs and clerical jobs.
3. **Select compensable factors.** In the ranking method, it is common to use just one factor (such as job difficulty) and to rank jobs based on the whole job. However, regardless of the number of factors you choose, explain the definition of the factor(s) to the evaluators carefully so that they all evaluate the jobs consistently.
4. **Rank jobs.** For example, each rater gets a set of index cards, each of which contains a brief description of a job. Then they arrange these cards from lowest to highest. Some managers use an “alternation ranking method” to make this procedure more accurate. Here you take the cards, first choosing the highest and the lowest, then the next highest and next lowest, and so forth, until you've ranked all the cards. Table 11-2 illustrates such a job ranking. Jobs in this small health facility rank from orderly up to office

manager. The corresponding current pay scales are shown in the column following the job titles. (After ranking, it is possible to slot additional jobs based on their difficulty between those already ranked and to assign each an appropriate wage rate.) The ranked listing of jobs enables us to compare each job's rank with its current pay, and decide if what we are currently paying is internally equitable; we may adjust a job's pay up or down, based on this. Online programs (for example, go to www.hr-guide.com, click under "Job Evaluation, Ranking," and then click "Interactive Ranking Program") can help you rank (and check the rankings of) your positions.⁶²

5. **Combine ratings.** Usually, several raters rank the jobs independently. Then the rating committee (or the employer) can simply average the raters' rankings.
6. **Compare current pay with what others are paying based on salary survey.** Next, we show on the same table (in the middle column) what others in the community are paying for similar jobs, based on a salary survey that we conduct. This helps us ensure that our pay will be *externally* equitable.
7. **Assign a new pay scale.** Finally, we compare what we are currently paying for each job with what others are paying, and decide (in this case) to adjust our pay scale by raising what we pay for each job. The last column therefore shows our new pay scale.

This is the simplest job evaluation method, as well as the easiest to explain. And it usually takes less time than other methods.

Drawbacks derive more from how managers use ranking than from the method itself. For example, there's a tendency to rely too heavily on "guess-timates" (of things like overall difficulty), since ranking usually does not use compensable factors. Similarly, ranking provides no yardstick for quantifying the value of one job relative to another. For example, job number 4 may in fact be five times "more valuable" than job number 5, but with the ranking method all you know is that one job ranks higher than the other. Ranking is usually more appropriate for small employers that can't afford the time or expense of a more elaborate method.

The *factor comparison method* is a special ranking method. It requires ranking each of a job's "factors" (such as education required, experience, and complexity), and then adding up the points representing the number of "degrees" of each factor each job has. Employers seldom use it today.

TABLE 11-2 Job Ranking at in an Indian Mid-sized Hospital

Ranking Order	Our Current monthly Pay Scale	What Others Pay: Salary Survey Pay	Our Final Assigned Pay
1. Office manager	₹43,000	₹45,000	₹44,000
2. Chief nurse	42,500	43,000	42,750
3. Accounts Supervisor	34,000	36,000	35,000
4. Nurse	32,500	33,000	32,750
5. Specialist Cook	31,000	32,000	31,500
6. Nurse's assistant	28,500	30,500	29,500
7. Orderly	25,500	27,000	27,000

Note: After ranking, it becomes possible to slot additional jobs (based on overall job difficulty, for instance) between those already ranked and to assign each an appropriate wage rate.

job classification (or job grading)

A method for categorizing jobs into groups.

classes

Grouping jobs based on a set of rules for each group or class, such as amount of independent judgment, skill, physical effort, and so forth, required. Classes usually contain similar jobs.

grades

A job classification system like the class system, although grades often contain dissimilar jobs, such as secretaries, mechanics, and firefighters. Grade descriptions are written based on compensable factors listed in classification systems.

grade definition

Written descriptions of the level of, say, responsibility and knowledge required by jobs in each grade. Similar jobs can then be combined into grades or classes.

Job Evaluation Methods: Job Classification

Job classification (or job grading) is a simple, widely used job evaluation method in which raters categorize jobs into groups; all the jobs in each group are of roughly the same value for pay purposes. We call these groups **classes** if they contain similar jobs, or **grades** if they contain jobs that are similar in difficulty but otherwise different. Thus, in government's pay grade (followed by 6th CPC) system, a "media assistant" and a "fire fighter" might both be graded "PB-2" (PB stands for "Pay Band") or Pay Level 8 of Pay Matrix of 7th CPC under. On the other hand, in its job class system, the Tata Group might classify all 'secretary II' in one class, all "maintenance engineers" in another, and so forth.

In practice, there are several ways to categorize jobs. One is to write class or grade summaries or descriptions (similar to job descriptions); you then place jobs into the classes or grades based on how well they fit these descriptions. Another is to write a set of compensable factor-based rules for each class (for instance, how much independent judgment, skill, and physical effort does the class of jobs require?). Then categorize each job according to these rules.

The usual procedure blends these two: the analysts choose compensable factors and then develop short class or grade descriptions that describe each class (or grade) in terms of the amount or level of the factors in those jobs. For example, the U.S. government's classification system uses eight compensable factors: (1) difficulty and variety of work, (2) supervision received and exercised, (3) judgment exercised, (4) originality required, (5) nature and purpose of interpersonal work relationships, (6) responsibility, (7) experience, and (8) knowledge required. Based on these compensable factors, raters write a **grade definition** like that in Figure 11-2. This one shows one grade description (for grade GS-7) for the federal government's pay grade system. Then the evaluation committee reviews all job descriptions and slots each job into its appropriate grade, by comparing each job description to the rules in each grade description.

The classification method has several advantages. The main one is that most employers usually end up grouping jobs into classes or grades anyway, regardless of the evaluation method they use. They do this to avoid having to price separately dozens or hundreds of jobs. Of course, the job classification automatically groups the employer's jobs into classes. The disadvantages are that it isn't easy to write the class or grade descriptions, and considerable judgment is required to apply them. Yet many employers use this method with success.

Job Evaluation Methods: Point Method

The **point method's** overall aim is to determine the degree to which the jobs you're evaluating contain selected compensable factors. It involves identifying several compensable factors for the jobs, as well as the degree to which each factor is present in each job. Assume there are five degrees of the compensable factor "responsibility" a job could contain. Further, assume you assign

FIGURE 11-2 Example of a Grade Definition

Source: From "Grade Level Guide for Clerical and Assistance Work" from www.opm.gov/policy-data-oversight/classification-qualifications/classifying-general-schedule-positions/functional-guides/gscscler.pdf, accessed September 12, 2018.

Grade	Nature of Assignment	Level of Responsibility
GS-7	Performs specialized duties in a defined functional or program area involving a wide variety of problems or situations; develops information, identifies interrelationships, and takes actions consistent with objectives of the function or program served.	Work is assigned in terms of objectives, priorities, and deadlines; the employee works independently in resolving most conflicts; completed work is evaluated for conformance to policy; guidelines, such as regulations, precedent cases, and policy statements require considerable interpretation and adaptation.

point method

The job evaluation method in which a number of compensable factors are identified and then the degree to which each of these factors is present on the job is determined.

a different number of points to each degree of each compensable factor. Once the evaluation committee determines the degree to which each compensable factor (like “responsibility” and “effort”) is present in a job, it can calculate a total point value for the job by adding up the corresponding degree points for each factor. The result is a quantitative point rating for each job. The point method of job evaluation is the most popular job evaluation method today.⁶³

“PACKAGED” POINT PLANS A number of groups (such as the Hay Group, have developed standardized point plans. Many thousands of employers use these systems. They contain ready-made factor and degree definitions and point assessments for a wide range of jobs. Employers can often use them with little or no modification.

Computerized Job Evaluations

Using job evaluation methods such as the point method can be time-consuming. Accumulating the information about “how much” of each compensable factor the job contains is a tedious process. The evaluation committees must debate the level of each compensable factor in each job. They then write down their consensus judgments and compute each job’s point values or rankings. Many employers therefore turn to computerized systems (see example on page 364.)

Most such computerized systems have two main components.⁶⁴ There is, first, a structured questionnaire. This contains items such as “enter total number of employees who report to this position.” Second, such systems may use statistical models. These allow the computer program to price jobs more or less automatically, by assigning points based on the questionnaire responses.

JOB POINTS MODEL

Job points model was developed by IIMA team for comparing worth of jobs in Government, PSU’s and private sector at different levels.⁶⁵ The purpose was to compare and equate jobs in Government of India with central PSU’s and private sectors, without subjectivity. The Job point model considers four dimensions, i.e., Expertise, Effort, Responsibility and accountability, and Job Setting to arrive at comparison. Each dimension is further divided into sub-dimensions and points can be allotted to each dimension by employing the Delphi method. The main and subdimensions are given in the Table below.

TABLE 11-3 Dimensions of Job Points Model

Main Dimensions	Sub- Dimensions
Expertise	Explicit Knowledge
	Tacit Knowledge
	Specialization
	Physical Activities
Efforts	Cognitive processes
	Affective processes
	Initiatives
	Influences
Responsibility & Accountability	Positional Impact
	Discretionary Power
	Beneficiary Relationship
	Safety & Risk
Job setting	Unavoidable Hazards
	Non-conduciveness of Work Environment
	Lack of Career/ Job prospects

Job point method helps to determine the comparable worth of each job and allows intra and inter comparison of organizations. The scores can be used for determining job bands and the associated compensation level. Initially, this model was used for appraising the 7th central pay commission.⁶⁶ It has been made available in an open-source format for wider adoption.

LEARNING OBJECTIVE 11-3

Explain in detail how to establish a market-competitive pay plan.

How to Create a Market-Competitive Pay Plan

As we said, many firms simply price their jobs based on what other employers are paying—they just use a market-based approach. However, most employers also base their pay plans on job evaluation methods like those just described. These evaluations assign values (such as point values) to each job. This helps to produce a pay plan in which each job's pay is internally equitable, based, as it is, on the job's value to the employer (as measured, for instance, by how many points it warrants). However, even with the job evaluation approach, managers must adjust pay rates to fit the market.⁶⁷ After all, you want employees' pay to be equitable internally—relative to what their colleagues in the firm are earning—but also competitive externally—relative to what *other employers* are paying. In a *market-competitive pay plan* a job's compensation reflects the job's value in the company, as well as what other employers are paying for similar jobs in the marketplace. Because the point method (or “point-factor method”) is so popular, we'll use it as the centerpiece of our step-by-step example for creating a market-competitive pay plan.⁶⁸ The 16 steps in creating a market-competitive pay plan begin with choosing benchmark jobs.

[HR-Guide Home](#)
[Compensation](#)

Job Evaluation: An Internet Application

Comp
Administration
•Salary Plan
•Consultants
•Relocation

This is an interactive web-based tool that allows you to develop a point method job evaluation instrument. Using this tool, you will be able to specify the number and type of job evaluation factors; the number of levels within each factor; and the points associated with the factors.

Each screen will have brief instructions and an on-line form for you to complete. Click the button below to begin.

[Begin](#)

Incentive Plans

•Merit Pay
•Gainsharing
•Profit Sharing
•Stock Options
•ESOP

Mail questions to: [webmaster](#), June 2001

Salary Surveys

•Overview
•Conducting
•Web Links to
•Statistics

Web Based

Salary Surveys

•Dynamic Web

Apps

•Web

Technology

•Client or

Server

•Important

Questions

•Server Based

Apps

•Client Based

Apps

Computer-aided job evaluation can streamline the job evaluation process

Source: Reprinted by permission from Computer-aided job evaluation can streamline the job evaluation process, in Screen capture: [www.hrsoftware.net/cgi/JobEvaluation.cgi](#).

1. Choose Benchmark Jobs

Particularly when an employer has dozens or hundreds of different jobs, it's impractical and unnecessary to evaluate each of them separately. Therefore, the first step in the point method is to select benchmark jobs. Benchmark jobs are representative of the jobs the employer needs to evaluate. Like "accounting clerk" they should be common among employers (thus making it easier to survey what competitors are paying for similar jobs).⁶⁹

2. Select Compensable Factors

The choice of compensable factors depends on tradition (four compensable factors: skill, effort, responsibility, and working conditions are used commonly), and on strategic and practical considerations. For example, if your firm's competitive advantage is quality, you might substitute "responsibility for quality" for working conditions, or simply add it as a fifth factor.⁷⁰ Similarly, using "working conditions" makes little practical sense for evaluating executive jobs.

The employer should carefully define each factor. This is to ensure that the evaluation committee members will each apply the factors with consistency. Figure 11-3 shows (on top) one such definition, in this case for the factor job complexity. The human resource specialist often draws up the definitions.

FIGURE 11-3 Illustrative Point Values and Degree Definitions for the Factor Job Complexity

Source: Copyright Gary Dessler, PhD.

Factor Definition: What Is Job Complexity? Job complexity generally refers to the amount of judgment, initiative, ingenuity, and complex data analysis that doing the job requires. To what extent does the person doing this job confront unfamiliar problems, deal with complex decisions, and have to exercise discretion?

Degree	Points	Job Complexity Degree Definitions: What to Look for in the Job
First	120	Here the job is routine and consists of repetitive operations requiring little or no choice of action and the automatic application of easily understood rules and procedures. For example, a filing clerk.
Second	240	Here the employee follows detailed instructions but may have to make limited decisions based on previously prescribed instructions which lay out prescribed alternatives. For example, a billing clerk or a receptionist.
Third	360	Here the employee again follows detailed instructions but because the number of matters to consider is more varied, the employee needs to exhibit initiative and independent judgment, under direct supervision. For example, a nurse's aide.
Fourth	480	Here the employee can generally follow standard practices but the presence of nonroutine problems requires that the employee be able to use initiative and judgment to analyze and evaluate situations, possibly modifying the standard procedures to adjust to the new situations. For example, a nurse.
Fifth	600	On this job, the employee needs to use independent judgment and plan and perform complex work under only general supervision, often working independently toward achieving overall results. For example, medical intern.

3. Assign Weights to Compensable Factors

Having selected compensable factors, the next step is to determine the relative importance (or weighting) of each factor (for instance, how much more important is “skill” than “effort”?). This is important because for each cluster of jobs some factors are bound to be more important than others are. Thus, for executive jobs the “mental requirements” factor would carry far more weight than would “physical requirements.” To assign weights, we assume we have a total 100 percentage points to allocate for each job. Then (as an illustration), assign percentage weights of 60% for the factor job complexity, 30% for effort, and 10% for working conditions.⁷¹

4. Convert Percentages to Points for Each Factor

Next, we want to convert the percentage weights assigned to each compensable factor into point values for each factor (this is, after all, the point method). It is traditional to assume we are working with a total of 1,000 points (although one could use some other figure). To convert percentages to points for each compensable factor, *multiply the percentage weight for each compensable factor (from the previous step) by 1,000.*⁷² This will tell you the *maximum number of points* for each compensable factor. Doing so in this case would translate into possible points for job complexity, points for effort, and points for working conditions.

5. Define Each Factor's Degrees

Next, split each factor into degrees, and define (write degree definitions for) each degree so that raters may judge the amount or degree of a factor existing in a job. Thus, for a compensable factor such as “job complexity” you might choose to have five degrees, ranging from “here the job is routine” to “uses independent judgment.” (Our definitions for each degree are shown in Figure 11-3 under “Job Complexity Degree Definitions: What to Look for in the Job.”) The number of degrees usually does not exceed five or six, and the actual number depends mostly on judgment. Thus, if all employees work either in a quiet, air-conditioned office or in a noisy, hot factory, then two degrees would probably suffice for the factor “working conditions.” You need not have the same number of degrees for each factor, and you should limit degrees to the number necessary to distinguish among jobs.

6. Determine for Each Factor Its Factor Degrees' Points

The evaluation committee must be able to determine the number of points each job is worth. To do this, the committee must be able to examine each job and (from each factor's degree definitions) *determine what degree of each compensable factor* that job has. For them to do this, we must first assign points to *each degree of each compensable factor*. For example, in our illustration, we have five possible degrees of job complexity, and the job complexity compensable factor is worth up to 600 points maximum. In our case, we simply decide that the first degree level of job complexity is worth 120 (or one-fifth of 600) points, the second degree level is worth 240 points, the third degree level is worth 360 points, the fourth degree level is worth 480 points, and the fifth degree is worth the maximum 600 points (see Figure 11-3).⁷³ Do this for each factor (as in Table 11-4).

TABLE 11-4 Points Assigned to Factors and to Their Degrees (Revised)

Factors	First-Degree Points	Second-Degree Points	Third-Degree Points	Fourth-Degree Points	Fifth-Degree Points
Job complexity (Total maximum points equal 600)	120	240	360	480	600
Effort (Total maximum points equal 300)	60	120	180	240	300
Working conditions (Total maximum points equal 100 points)	20	40	60	80	100

7. Review Job Descriptions and Job Specifications

The heart of job *evaluation* involves determining the amount or degree to which the job contains the selected compensable factors such as effort, job complexity, and working conditions. The team conducting the job evaluation will frequently do so by first reviewing each job's job description and job specification. As we explained in Chapter 4 (Job Analysis), it is through the job analysis that the manager identifies the job's duties and responsibilities and writes the job description and job specification. Ideally, therefore, the job analyst included, in the job description and specification, information about the compensable factors (such as job complexity) around which the employer plans to build its compensation plan.⁷⁴

8. Evaluate the Jobs

Steps 1–7 provide us with the information (for instance, on points and degrees) based on which we can evaluate the jobs. The committee has also gathered the job descriptions and job specifications for the benchmark jobs they will focus on.

Then, from their review of each job description and job specification, the committee *determines the degree to which each compensable factor is present in each job*. Thus for, say, a job of master mechanic, the team might conclude (after studying the job description and job specification) that the master mechanic's job deserves the third-degree level of *job complexity* points, the first-degree level of *effort*, and the first-degree level of *working conditions*.

Knowing the job complexity, effort, and working conditions degrees for each job, *and knowing the number of points we previously assigned to each degree* of each compensable factor, we can now determine how many job complexity, effort, and working conditions points each benchmark job should contain. (We know the degree level for each factor for each job, so we merely check the corresponding points [see Table 11-4] that we previously assigned to each of these degrees.)

Finally, we add up these degree points for each job to determine each job's total number of points.⁷⁵ The master mechanic job gets points from Table 11-4. This enables us to list a hierarchy of jobs, based upon each job's points. We can soon turn to assigning wage rates to each job (step 9). But first, we should define market-competitive pay plan and wage curve.

What should the pay rate be for each job? Of course, jobs with more points should command higher pay. The question is what pay rate to use. Our company's current, "internal" pay rates? Or pay rates based on what the "external" market is paying?⁷⁶

market-competitive pay system

A pay system in which the employer's actual pay rates are competitive with those in the relevant labor market.

With a **market-competitive pay system**, the employer's actual pay rates are competitive with those in the relevant labor market, as well as equitable internally.⁷⁷ Put simply, the basic approach is to compare what the employer is *currently* paying for each job ("internal pay") with what the market is paying for the same or similar job ("external pay"), and then to combine this information to produce a market-competitive pay system.

WAGE CURVES Wage curves play a central role in assigning wage rates to jobs. The wage curve typically shows the pay rates paid for jobs, relative to the points or rankings assigned to each job by the job evaluation. Figure 11-4 presents an example. Note that it shows pay rates for jobs on the vertical axis, and point values for these jobs along the horizontal axis. The purpose of the wage curve is to show the relationships between (1) the value of the job (expressed in points) as determined by one of the job evaluation methods and (2) the pay rates for the job. (We'll see that many employers may combine jobs into classes or grades. Here the wage curve would show the relationship between average pay rates for each grade, and each grade's average point value.) The pay rates on the wage curve are traditionally those now paid by the employer. However, if there is reason to believe the current pay rates are out of step with the market rates for these jobs, the employer will have to adjust them. One way to do this is to compare a wage curve that shows the jobs' *current* wage rates relative to the jobs' points, with a second curve that shows *market* wage rates relative to points. We do this as follows.

FIGURE 11-4 Plotting a Wage Curve

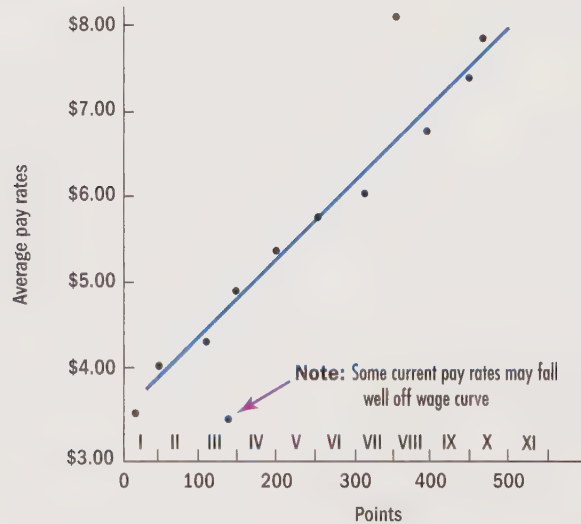
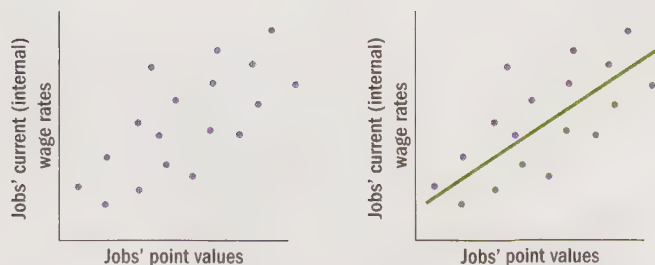


FIGURE 11-5 The Current/Internal Wage Curve



wage curve

Shows the relationship between the value of the job and the average wage paid for this job.

salary survey

A survey aimed at determining prevailing wage rates. A good salary survey provides specific wage rates for specific jobs. Formal written questionnaire surveys are the most comprehensive, but telephone surveys and newspaper ads are also sources of information.

9. Draw the Current (Internal) Wage Curve

First, to study how each job's points relates to its current pay rate, we start by drawing an *internal wage curve*. Plotting each job's points and the wage rate the employer is now paying for each job (or wage rates, if there are several for each job) produces a scatter plot as in Figure 11-5 (left). We now draw a wage curve (on the right) through these plots that shows how point values relate to current wage rates. We can draw this wage line by just estimating a line that best fits the plotted points (by minimizing the distances between the plots and the curve). Or we can use regression, a statistical technique. Using the latter will produce a current/internal wage curve that best fits the plotted points. In any case, we show the results in Figure 11-5 (right).⁷⁸

10. Conduct a Market Analysis: Salary Surveys

Next, we must compile the information needed to draw an *external wage curve* for our jobs, based on what other employers are paying for similar jobs. **Salary surveys**—surveys of what others are paying—play a big role in pricing jobs.⁷⁹ Employers use salary surveys in three ways. First, they use survey data to price benchmark jobs. Benchmark jobs are the anchor jobs around which they slot their other jobs, based on each job's relative worth to the firm. Second, employers typically price 20% or more of their positions directly in the marketplace (rather than relative to the firm's benchmark jobs), based on a survey of what comparable firms are paying for comparable jobs. (Google might do this for jobs like systems engineer, whose salaries fluctuate widely and often.) Third, surveys also collect data on benefits like insurance, sick leave, and vacations for decisions regarding employee benefits.

Salary surveys can be formal or informal. *Informal* phone or Internet surveys are good for checking specific issues, such as when a bank wants to confirm the salary at which to advertise a newly open teller's job, or whether some banks are really paying tellers an incentive. Some large employers can afford to send out their own *formal* surveys to collect compensation information from other employers. These ask about things like number of employees, overtime policies, starting salaries, and paid vacations.

Many employers use surveys published by consulting firms, professional associations, or government agencies. Indian organizations take help of HR consultancies and market research firms to conduct compensation surveys. These surveys focus on comparable firms in same sector or related sector. For general pay data, the annual Monster India Salary Index report, done in association with paycheck.in and India Salary Guide by Kelly India (https://www.kellyservices.co.in/india_salary_guide_2019) are sources. While a consultant might charge lot of money for a salary survey, it will be a tiny fraction of the total salary bill of a company.

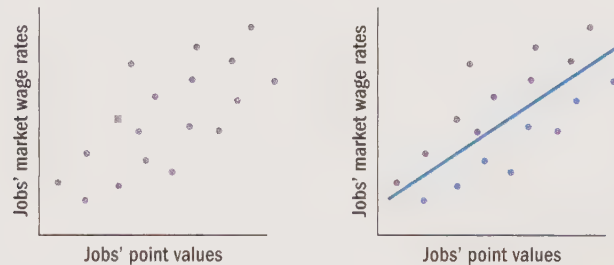
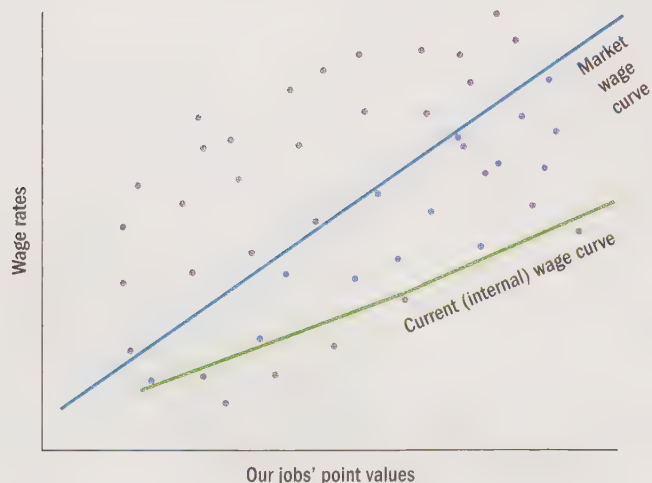
Private consulting and/or executive recruiting companies like Hay Group, Towers Watson Global Data Services, and Aon/Hewitt (www.aon.com) publish data covering compensation for top and middle management and members of boards of directors. Professional organizations like the Society for Human Resource Management and NIPM and the Institute of Chartered Accountants publish surveys of compensation practices. NIPM chapters discuss details of collective bargaining agreements in their meetings, which aids in information sharing.

TABLE 11-4 Some Pay Data Web Sites

Sponsor	Internet Address	What It Provides	Downside
Salary.com	www.salary.com	Salary by job and ZIP code, plus job and description, for hundreds of jobs	Adapts national averages by applying local cost-of-living differences
Paycheck India	www.paycheck.in	Salaries and wages for Indian jobs, by location	Limited to Indian jobs
Job Star	http://jobstar.org/tools/salary/sal-prof.php	Profession-specific salary surveys	Necessary to review numerous salary surveys for each profession

USING THE INTERNET TO DO COMPENSATION SURVEYS Internet-based options make it easy for anyone to access published compensation survey information. Table 11-4 shows some popular salary survey Web sites.

Many of these sites, such as Paycheck.in, provide national salary levels for jobs that the site then arithmetically adjusts to each locale based on cost-of-living formulas. PayCheck India is a part of the global WageIndicator project (www.wageindicator.org), where salaries of more than 70 countries are collected and compared. In India, PayCheck has been active since 2007, and IIMA is the research partner to collect real-time picture of what employers in the region are actually paying to collect accounting clerks, it's useful to access the online Internet sites of one or two of your local newspapers, or check the classified advertisement columns.

FIGURE 11-6 The Market/External Wage Curve**FIGURE 11-7** Plotting Both the Market and Internal Wage Curves

11. Draw the Market (External) Wage Curve

The current/internal wage curve from step 9 is helpful. For example, showing, as it does, how a job's current pay rate compares with its points helps the employer identify jobs for which pay rates are currently too high or too low, relative to other jobs in the company. (For example, if a job's current wage rate is well above the internal wage curve, it suggests that the present wage rate for that job is inequitably high, given the number of points we've assigned to that job.)

What the current (internal) wage curve does *not* reveal is whether our pay rates are too high, too low, or just right relative to what other firms are paying. For this, we need to draw a *market or external wage curve*.

To draw the market/external wage curve, we produce a scatter plot and wage curve as in Figure 11-6 (left and right). However, instead of using our firm's current wage rates, we use market wage rates (obtained from salary surveys). The market/external wage curve thereby compares our jobs' points with market pay rates for our jobs.

12. Compare and Adjust Current and Market Wage Rates for Jobs

How different are the market rates other employers are paying for our jobs and the current rates we are now paying for our jobs? To determine this, we combine both the current/internal and market/external wage curves on one graph, as in Figure 11-8. The market wage curve might be higher than our current wage curve (suggesting that our current pay rates may be too low), or below our current wage curve (suggesting that our current wage rates might be too high). Or perhaps market wage rates are higher for some of our jobs and lower for others.⁸⁰

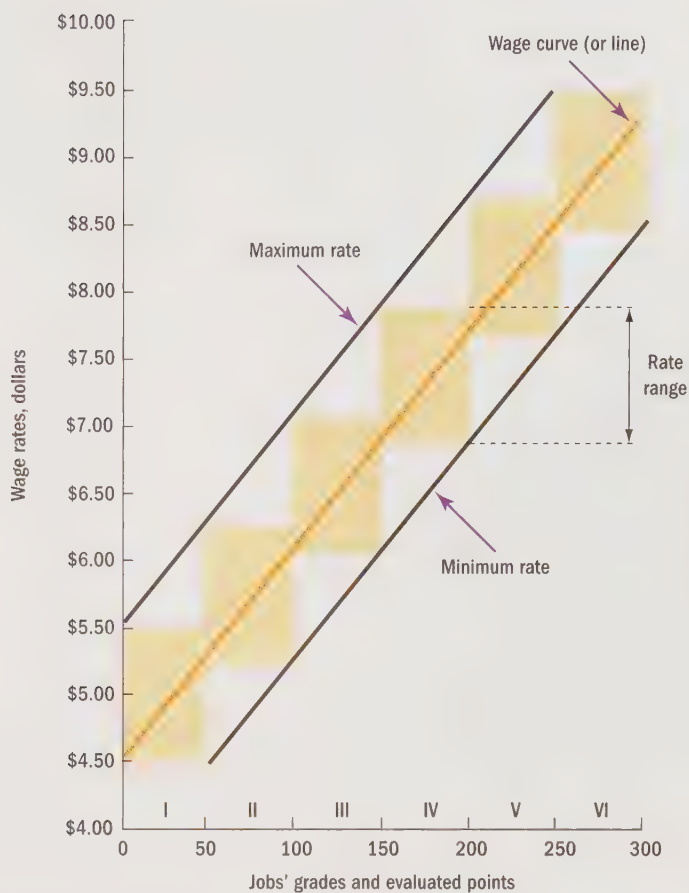
Based on comparing the current/internal wage curve and market/external wage curve in Figure 11-7, we must decide whether to adjust the current pay rates for our jobs, and if so how. This calls for a policy decision by management. Strategic considerations influence this decision. Do our strategic aspirations suggest we should pay more, the same, or less than competitors? For example, we might decide to move our current internal wage curve up (and thereby give everyone a raise), or down (and thereby perhaps withhold pay increases for some time), or adjust the slope of the internal wage curve to increase what we pay for some jobs and decrease what we pay for others. In any case, the wage curve we end up with (the orange line in Figure 11-8) should now be equitable internally (in terms of the point value of each job) and equitable externally (in terms of what other firms are paying).⁸¹

13. Develop Pay Grades

Employers typically group similar jobs (in terms of points) into grades for pay purposes. Then, instead of having to deal with hundreds of job rates, you might only have to focus on, say, pay rates for 10 or 12 pay grades. For example, Serco, a services firm that operates a London, England, light railway system, set up pay grades after ranking jobs using a system based on knowledge, management complexity, and the job's magnitude and impact on the organization.⁸²

A **pay (or wage) grade** is composed of jobs of approximately equal difficulty or importance as determined by job evaluation. If you used the point method of job evaluation, the pay grade consists of jobs falling within a range of points. If the ranking method was used, the grade consists of a specific number of ranks. If you use the classification system, then your jobs are already categorized into classes (or grades).

FIGURE 11-8 Wage Structure



pay (or wage) grade

A pay grade is composed of jobs of approximately equal difficulty.

DETERMINING THE NUMBER OF PAY GRADES It is standard to establish grades of equal point spread. (In other words, each grade might include all those jobs falling between 50 and 100 points, 100 and 150 points, 150 and 200 points, etc.) Since each grade is the same width, the main issue involves determining how many grades to have. There doesn't seem to be any optimal number, although 10 to 16 grades for a given job cluster (shop jobs, clerical jobs, etc.) seems to be common. You need more pay grades if there are, say, 1,000 jobs to be graded than if there are only 100.

14. Establish Rate Ranges

Most employers do not pay just one rate for all jobs in a particular pay grade. For example, GE Medical or ITC Ltd. won't want to pay all its accounting clerks, from beginners to long tenure, at the same rate, even though they may all be in the same pay grade. Instead, employers develop vertical pay (or "rate") ranges for each of the horizontal pay grades (or pay classes). These **pay (or rate) ranges** often appear as vertical boxes within each grade, showing minimum, maximum, and midpoint pay rates for that grade, as in Figure 11-8. (Specialists call this graph a *wage structure*. Figure 11-8 graphically depicts the range of pay rates—in this case, per hour—paid for each pay grade.) Alternatively, you may depict the pay range for each class or grade as steps in a table, as in Table 11-5. Here you will have specific corresponding pay rates for each step within each grade in tabular form. Thus, Table 11-5 shows the pay rates

TABLE 11-5 U.S. Government Annual Rates by Grade and Step

Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10	Within Grade Amounts
1	\$ 18,526	\$ 19,146	\$ 19,762	\$ 20,375	\$ 20,991	\$ 21,351	\$ 21,960	\$ 22,575	\$ 22,599	\$ 23,171	VARIES
2	20,829	21,325	22,015	22,599	22,853	23,525	24,197	24,869	25,541	26,213	VARIES
3	22,727	23,485	23,243	25,001	25,759	26,517	27,275	28,033	28,791	29,549	758
4	25,514	26,364	27,214	28,064	28,914	29,764	30,614	31,464	32,314	33,164	850
5	28,545	29,497	30,449	31,401	32,353	33,305	34,257	34,209	36,161	37,113	952
6	31,819	32,880	33,941	35,002	36,063	37,124	38,185	39,246	40,307	41,368	1,061
7	35,359	36,538	37,717	38,896	40,075	41,254	42,433	43,612	44,791	45,970	1,179
8	39,159	40,464	41,769	43,074	44,379	45,684	46,989	48,294	49,599	50,904	1,305
9	43,251	44,693	46,135	47,577	49,019	50,461	51,903	53,345	54,787	56,229	1,442
10	47,630	49,218	50,806	52,394	53,982	55,570	57,158	58,746	60,334	61,922	1,588
11	52,329	54,073	55,817	57,561	59,305	61,049	62,793	64,537	66,281	68,025	1,744
12	62,722	64,813	66,904	68,995	71,086	73,177	75,268	77,359	79,450	81,541	2,091
13	74,584	77,070	79,556	82,042	84,528	87,014	89,500	91,986	94,472	96,958	2,486
14	88,136	91,074	94,012	96,950	99,888	102,826	105,764	108,702	111,640	114,578	2,938
15	103,672	107,128	110,584	114,040	117,496	120,952	124,408	127,864	131,320	134,776	3,456

Source: From salary table 2015-gs incorporating the 1% general schedule increase effective January 2015, from <https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/salary-tables/pdf/2017/GS.pdf>.

pay (or rate) ranges

A series of steps or levels within a pay grade, usually based upon years of service.

and steps for most U.S. federal government grades. As of the time of this pay schedule, for instance, employees in positions classified in grade GS-10 could be paid annual salaries between \$47,630 and \$61,922, depending on the level or step at which they were hired into the grade, the amount of time they were in the grade, and any merit increases they've received.

DEVELOPING RATE RANGES As in Figure 11-8, the wage curve usually anchors the average pay rate for each vertical pay range. The firm might then arbitrarily decide on a maximum and minimum rate for each grade, such as 15% above and below the wage curve. As an alternative, some employers allow the pay range for each grade to become taller (they include more pay rates) for the higher pay ranges, reflecting the greater demands and performance variability inherent in more complex jobs. As in Figure 11-10, most employers structure their rate ranges to overlap a bit, so an employee in one grade who has more experience or seniority may earn more than would someone in an entry-level position in the next higher pay grade.⁸³

There are several reasons to use pay ranges for each pay grade. First, it lets the employer take a more flexible stance in the labor market. For example, it makes it easier to attract experienced, higher-paid employees into a pay grade at the top of the range, since the starting salary for the pay grade's lowest step may be too low to attract them. Pay ranges also let companies provide for performance differences between employees within the same grade or between those with different seniorities.

Compensation experts sometimes use *compa ratios*. The **compa ratio** equals an employee's pay rate divided by the pay range midpoint for his or

compa ratio

Equals an employee's pay rate divided by the pay range midpoint for his or her pay grade.

her pay grade. A compa ratio of 1 means the employee is being paid exactly at the pay range midpoint. If the compa ratio is above 1 then the person's pay rate exceeds the midpoint pay for the job. If it is below, then the pay rate is less than the midpoint. The compa ratio can help reveal how many jobs in each pay grade are paid above and below competitive market pay rates.⁸⁴

15. Address Remaining Jobs

To this point, we have focused our job evaluation on a limited number of benchmark jobs, as is traditional. We now want to add our remaining jobs to the wage structure. We can do this in two ways. We can evaluate each of the remaining jobs using the same process we just went through. Or we can simply slot the remaining jobs into the wage structure where we feel they belong, without formally evaluating and assigning points to these jobs. Jobs similar enough to our benchmark jobs we can easily slot into the wage structure. Jobs we're not sure about should undergo the same job evaluation process; we assign points to them and precisely slot them into the wage structure.⁸⁵ Still there can be few jobs which remain outliers, because of historical, cultural or structural reasons. Firms can plan to rationalize such jobs to fit the structure, or in rare cases allow it to remain independent for a period.

16. Correct Out-of-Line Rates

Finally, the wage rate the firm is now paying for a particular job may fall well off the wage curve or well outside the rate range for its grade, as illustrated in Figure 11-4 (page 415). This means that the average pay for that job is currently too high or too low, relative to other jobs in the firm. For underpaid jobs, the solution is clear: Raise the wages of underpaid employees to the minimum of the rate range for their pay grade.

Current pay rates falling above the rate range are a different story. These are "red circle," "flagged," or "overrates." There are several ways to cope with this problem. One is to freeze the rate paid to these employees until general salary increases bring the other jobs into line. A second option is to transfer or promote the employees involved to jobs for which you can legitimately pay them their current pay rates. The third option is to freeze the rate for a period, say 6 months, during which time you try to transfer or promote the overpaid employees. If you cannot, then cut the rate you pay these employees to the maximum in the pay range for their pay grade. In rare cases, a one time financial award is given, so that the employee agrees to reduced level or pay freeze. The accompanying HR Tools discussion explains a streamlined pay plan procedure for small businesses.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Developing a Workable Pay Plan

Pay plans are as important for small firms as large ones. Pay that is too high wastes money; too low triggers turnover; and internally inequitable causes endless demands for raises. The owner who wants to concentrate on major issues like sales needs a rational pay plan.

Surveying market rates come first. Sites like LinkedIn and Paycheck. in will show localized average pay rates for jobs in your geographic area.

Monster India, in association with Paycheck.in and Wageindicator foundation publishes annual Monster Salary Index reports, which can be a good source of data. The Sunday newspaper classified ads (online and offline) will contain information on wages offered for jobs similar to those you're trying to price. Local employment exchanges and recruitment consultants can provide a wealth of information, as they compile extensive information on pay ranges and averages for many jobs. Recruitment agencies, always anxious to form ties with employers, will provide good data. Local college and university career centers will reveal prevailing pay rates for many jobs. Professional associations (such as NIPM and NHRD) are good sources of professionals' pay rates since members may share information informally. Building effective networks among professionals can help to collect information.

Smaller firms are making use of the Internet in other ways. For example, the HR manager surfs the Web to monitor rates and trends by periodically checking job boards, company Web sites, LinkedIn, and industry associations.⁸⁶

If you employ more than 20 employees or so, conduct at least a rudimentary job evaluation (probably using the ranking method we covered on pages 361–362). For this you will need job descriptions, since these will be the source of data regarding the nature and worth of each job.

You may find it easier to split your employees into three clusters—say, managerial/professional, office/clerical, and plant personnel. For each of the three groups, choose one or more compensable factors. Then rank (or assign points to) each job in that cluster based on, say, a ranking job evaluation. For each job you will then want to create a pay range. In general, you might choose as the midpoint of that range the average market salary for that job, or an average of the market rate and what you are currently paying. Then produce a total range of about 30% around this average, broken into five steps. (Thus, assemblers, one of the plant jobs, might earn from ₹20,000 to ₹30,000 per month, in five steps.)

Required compensation policies will include amount of holiday and vacation pay (as we explain in Chapter 13), overtime pay policy, method of pay (weekly, biweekly, monthly), garnishments, and time card or sign-in sheet procedures. Many pay policy examples are available online.⁸⁷ ■

LEARNING OBJECTIVE 11-4

Explain how to price managerial and professional jobs.

Pricing Managerial and Professional Pay

Developing compensation plans for managers or professionals is similar in many respects to developing plans for any employee. The basic aim is the same: to attract, motivate, and retain good employees. And job evaluation is about as applicable to managerial and professional jobs (below the top executive levels) as to production and clerical ones.

There are some big differences though. Managerial jobs tend to stress harder-to-quantify factors like judgment and problem solving more than do production and clerical jobs. There is also more emphasis on paying managers and professionals based on their performance or on what they can do, rather than on static job demands like working conditions. And one must compete in a marketplace for executives who often have rock star pay. So, job evaluation, although still important for management jobs, usually plays a secondary role to issues like bonuses, incentives, market rates, and benefits.

What Determines Executive Pay?

Because average CEO pay has leaped relative to the average worker's, executive pay has become a contentious topic today.

Whatever it is that accounts for CEO pay, it's apparently not always company performance. In one survey, the best-performing CEOs received the lowest average compensation, while those in low-performing companies were paid relatively well.⁸⁸ Conversely, one expert says CEOs with the highest 20% of compensation produced stock returns 60% greater than those of other firms in their industries.⁸⁹ Another study concluded that three main factors, *job complexity* (span of control, the number of functional divisions over which the executive has direct responsibility, and management level), the employer's *ability to pay* (total profit and rate of return), and the executive's *human capital* (educational level, field of study, work experience), accounted for about two-thirds of executive compensation variance.⁹⁰

In practice, external equity plays a big role in setting a top manager's compensation plan. The board of director's compensation committee may retain a compensation consultant, and together they will choose and analyze top executives' pay in what they consider to be "peer companies"—companies that may (or may not) be in the same industry as theirs. Critics argue that this process creates upward pressures on CEO compensation, because the peer companies often are ones with higher-paid CEOs.⁹¹ Alternatively, companies such as Berkshire Hathaway and Amazon tend to pay their founder/CEOs (Warren Buffet, Jeff Bezos) far less than do comparably sized firms; however, the CEOs have of course become very wealthy (as have many stockholders) through their stockholdings.⁹²

Below the CEO, many employers do use job evaluation for pricing managerial jobs (at least, below the top jobs). The basic approach is to classify executive and management positions into grades, each with a salary range. As with nonmanagerial jobs, one alternative is to rank the executive and management positions in relation to each other, then group into classes those of similar value. However, firms also use the job classification and point methods, with compensable factors like position scope, complexity, and difficulty. As with any jobs, job analysis, salary surveys, and fine-tuning salary levels around wage curves play roles.

Shareholder activism and government oversight have tightened the restrictions on what companies pay top executives. For example, Walt Disney, U.S. shareholders recently rejected (in a nonbinding vote) a plan to pay Disney CEO Robert Iger a total of almost \$300 million over four years.⁹³ In India, shareholder questioning of top management salaries was seen in Apollo Tyres, TCS and Infosys.⁹⁴ In case of Apollo Tyres, salaries were reduced by 30% after shareholder involvement. (1) In case of TCS, the chairperson defended the decision and indicated that the board, and (2) Nominations and Remuneration Committee (NRC) debated the issue in detail and decided to take a conservative stand. Actually, TCS could have paid more to the top managers.⁹⁵

Compensating Executives

Compensation for a company's top executives usually consist of several main elements.⁹⁶ *Base pay* includes the person's fixed salary. *Bonuses* are single payments generally to reward the manager for achieving a specific goal such as "total company profit over \$18 million." *Short-term incentives* are usually cash or stock bonuses for achieving progress toward strategic goals, such as "reducing reliance on domestic sales from 80% to 50%." *Long-term incentives* aim

to encourage the executive to take actions that drive up the value of the company's stock and include things like stock options. Finally, *executive benefits and perks* include things such as supplemental executive retirement pension plans. As an example, one CEO's total compensation was about ₹24 million in one year. Long-term stock awards and stock options of about ₹15 million were the largest component. About ₹1.5 million was base salary. About ₹3.5 million was annual incentive plan, just over ₹4 million was increased pensions Provident Fund and deferred compensation, and most of the rest went to "all other compensation."⁹⁷

Salary is traditionally the cornerstone of executive compensation. On it, employers layer benefits, incentives, and perquisites. Top executive compensation packages can be whoppers. According to ET analysis, Indian CEO's average salaries increased by 16% during 2018–19. Average individual pay of an Indian CEO is ₹6.39 crores during the same period.⁹⁸

Executive compensation emphasizes performance (discussed in Chapter 12) more than do other employees' pay plans, since organizational results reflect executives' contributions more than those of lower-echelon employees. Indeed, boards are boosting the emphasis on performance-based pay (in part due to shareholder activism). The big issue here is identifying the appropriate performance measures. Typical short-term measures include revenue growth and operating profit margin. Long-term measures include rate of return above some predetermined base. With so many complicated elements, employers must also be alert to the tax and securities law implications of their executive compensation decisions.

Executive Compensation in India

In Indian public-limited companies, law of the land has limited the payment of top management, but there has always been a debate about excessive payouts. Earlier, the Companies Act, 1956, which regulated top executive (i.e., director) compensation, had specified the framework for remuneration of top executives in the Indian companies. Till 1991, an upper ceiling of ₹15,000 per month existed for top managerial remuneration. Similarly, there were caps on profit sharing and perquisites payable. The limits were later relaxed. However, the act was reworked, and a new version came into effect in 2013.

The Companies Act, 2013 has addressed a few contentious issues related to top management compensation. It specifies every listed company has to constitute a nomination and remuneration committee. This committee has the mandate to ensure that the level and structure of compensation is such that it's able to attract, retain, and motivate directors. The law also mandates that there should be a balance between fixed and performance components in the remuneration paid to directors, key-management personnel, and senior managers. The payment has to reflect the short and long-term performance requirements of companies. The board has to approve the compensation policy, which is expected to bring in much required transparency and good governance.

Compensating Professional Employees

In compensating professionals, employers should first ensure that the person is actually a "professional" under the law. High compensation paid to professional managers has been a matter of concern in India. When Infosys appointed a new CEO, Vishal Sikka, from outside the company, his compensation package made headlines.⁹⁹ Later, when the board revised the top management compensation, the founders and other activists raised governance issues. Another point of contention was the high severance pay awarded to

the the previous CFO. Eventually, it led to resignations of board members, including the Chairman and the CEO.¹⁰⁰ In the U.S., the Fair Labor Standard Act “provides an exemption from both minimum wage and overtime pay for employees employed as bona fide executive, administrative, professional and outside sales employees.”¹⁰¹

However, calling someone a professional doesn’t make them one. In addition to earning high, the person’s main duty must “be the performance of work requiring advanced knowledge,” and “the advanced knowledge must be customarily acquired by a prolonged course of specialized intellectual instruction.”¹⁰²

Beyond that, compensating professionals such as engineers and attorneys presents unique challenges.¹⁰³ Analytical jobs like these emphasize compensable factors such as creativity and problem solving that are not easily measured. Furthermore, how to measure performance? For example, the success of an engineer’s idea depends on how the firm develops and markets it.

Employers can and do use job evaluation for professional jobs. Compensable factors here tend to focus on problem solving, creativity, job scope, and technical knowledge and expertise. Firms use the point method and job classification.

Yet, in practice, firms rarely rely on just job evaluation for pricing professional jobs. Factors like creativity (as noted) are hard to measure, and nonpay issues often influence professionals’ job decisions. Tech firms in particular also take dramatic steps to keep their best engineers from leaving. A few years ago Google raised its employees’ salaries by 10% in the face of defections by even their highest-paid professionals, such as the head of its Chrome OS team, to Facebook.¹⁰⁴ Many of them, well paid by most standards, still felt underpaid. Tech firms like Facebook also award far more stock options (or stock shares) than do most other industries, and many give large signing bonuses that they can claw back if someone leaves the company prematurely.¹⁰⁵

Most employers therefore emphasize a market-pricing approach for these jobs. They price professional jobs in the marketplace as best they can, to establish the values for benchmark jobs. Then they slot these benchmark jobs and their other professional jobs into a salary structure. Each professional discipline (such as engineer) usually ends up having four to six grade levels, each with a broad salary range. This helps employers remain competitive when bidding for professionals who literally have global employment possibilities.¹⁰⁶ That way, even outside Silicon Valley, engineers’ pay stays competitive: In one (non-high-tech) study a few years ago, the engineers earned a base salary of \$89,000, and a bonus of about \$9,000 based on personal performance, product profitability, and safety metrics.¹⁰⁷



IMPROVING PERFORMANCE: *THROUGH HRIS*

Payroll Administration

Payroll administration is one of the first functions most employers computerize or outsource, and for good reason. Administering the payroll system—keeping track of each employee’s FLSA worker status, wage rate, dependents, benefits, overtime, tax status, and so on; computing each paycheck; and then directing the actual printing of checks or direct deposits is a time-consuming task, one complicated by the need to comply with many federal, state, and local wage, hour, and other laws.

Many employers do perform this function in-house, usually with a payroll processing software package. ZingHR, a cloud-based HR software application, has a payroll system that allows flexibility employers.

On the other hand, many employers do outsource payroll administration to vendors. In deciding which vendor to use, the employer should consider its goals and the potential economic benefits, as well as factors such as the vendor's reputation. SHRM recommends evaluating the initial list of prospective vendors based on the employer's goals for the relationship. Don't just consider the relative economic benefits of outsourcing the function (rather than doing it in-house), but also the desirability of integrating the employer's internal systems with the vendor's, streamlining tax compliance and filings, and increasing employee self-service.¹⁰⁸ ■

LEARNING OBJECTIVE 11-5

Explain the difference between competency-based and traditional pay plans.

Contemporary Topics in Compensation

In this section, we'll look at five important contemporary compensation topics: competency-based pay, broadbanding, comparable worth, board oversight of executive pay, and total rewards.

Competency-Based Pay

Some managers question whether job evaluations that slot jobs into narrow cubbyholes ("Machinist I," "Machinist II," and so on) might not actually be counterproductive. For example, high-performance work systems depend on flexible multiskilled job assignments and on teamwork, and there's no place here for employees to say, "That's not my job."

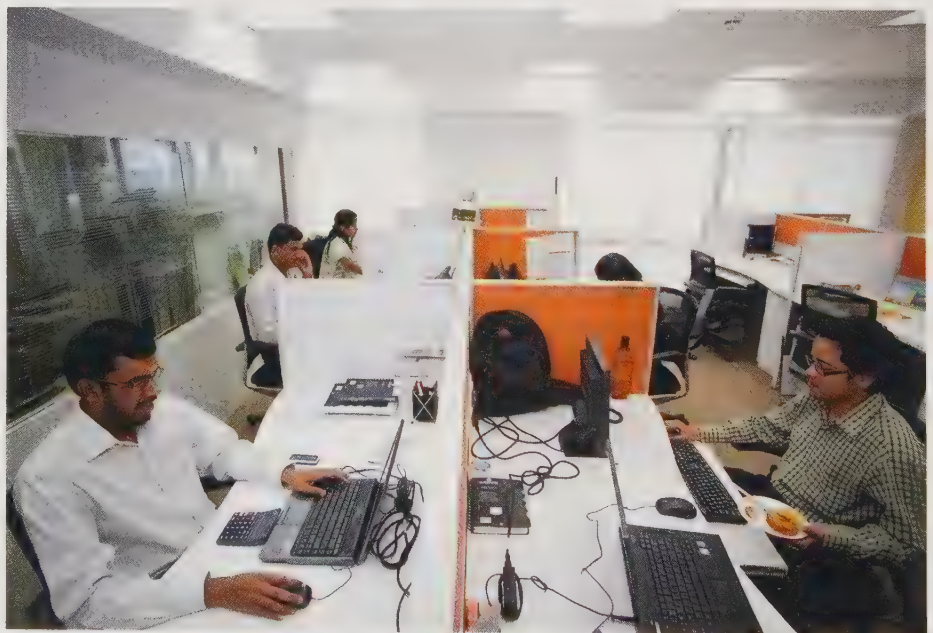
Competency-based pay aims to avoid that problem.¹⁰⁹ With competency (generally skill or knowledge-based) pay, you pay the employee for the skills and knowledge he or she is capable of using rather than for the responsibilities or title of the job currently held.¹¹⁰ Experts variously call this competence-, knowledge-, or skill-based pay. With competency-based pay, an employee in

competency-based pay

Where the company pays for the employee's range, depth, and types of skills and knowledge, rather than for the job title he or she holds.

Many employers pay certain workers based on attained skill levels.

Stuart Forster India / Alamy Stock Photo



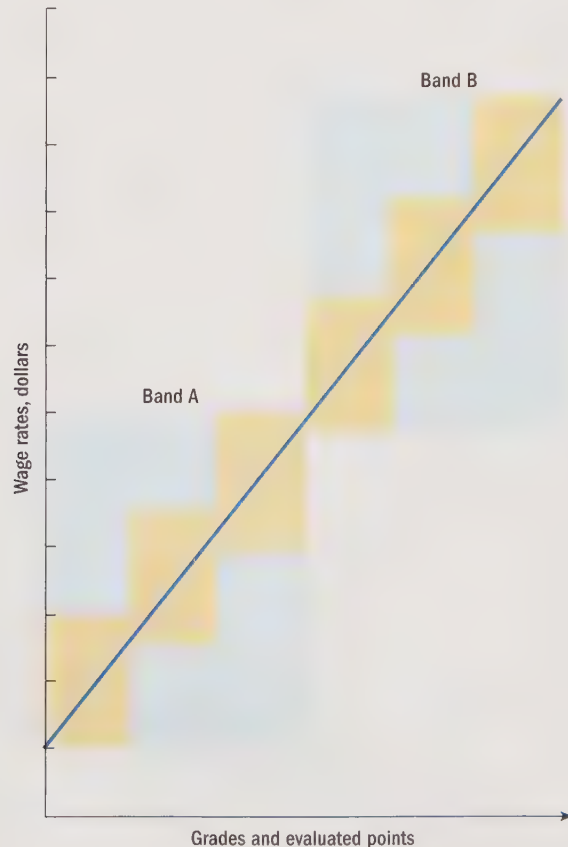
a class I job who could (but may not have to at the moment) do class II work gets paid as a class II worker, not a class I. *Competencies* are demonstrable personal characteristics such as knowledge, skills, and personal behaviors such as leadership. Why pay employees based on the skill levels they achieve, rather than based on the jobs they're assigned to? Because, for example, a company that organizes a facility around teams may want to encourage employees to get and to use the skills required to rotate among jobs. Indian bank employees who pass the certification of Indian Institute of Bankers (CAIIB) are rewarded with additional increments. Recently, to meet the growing need for Digital technology trained employees who can be deployed, and also manage attrition, Infosys announced that employees who attain higher level competencies by participating in an up skilling program (bridge-to-consulting) will be awarded pay increase.¹¹¹

As an example, review Chapter 4's Figure 4-9 on page 147. For this job, BP lists the minimum level of each skill (Technical Expertise, Problem Solving, and so on) someone holding this job must attain. As an employee achieves and is tested on each level of each skill, he or she would receive a bump in pay.

Broadbanding

Most firms end up with pay plans that slot jobs into classes or grades, each with its own vertical pay rate range. For example, the U.S. government's pay plan consists of 15 main grades (GS-1 to GS-15), each with its own pay range. For an employee whose job falls into one of these grades, the pay range for that grade dictates his or her minimum and maximum salary. The Sixth Central

FIGURE 11-9 Broadbanded Structure and How It Relates to Traditional Pay Grades and Ranges



broadbanding

Consolidating salary grades and ranges into just a few wide levels or “bands,” each of which contains a relatively wide range of jobs and salary levels.

Pay Commission introduced the Pay Band System for Indian government employees, where the structure was divided into 4 pay bands (PB). The PB system followed the broadbanding approach. (The PB system was removed by Seventh Central Pay Commission.)

The question is, “How wide should the salary grades be, in terms of the number of job evaluation points they include?” There is a downside to having (say, 15) narrow grades. For instance, if you want someone whose job is in grade 2 to fill in for a time in a job that happens to be in grade 1, it’s difficult to reassign that person without lowering his or her salary. Similarly, if you want the person to learn about a job that happens to be in grade 3, the employee might first want a corresponding raise to grade 3 pay. Traditional grade pay plans could thus breed inflexibility.

That is why some firms broadband their pay plans.¹¹² **Broadbanding** means collapsing salary grades into just a few wide levels or bands, each of which contains a relatively wide range of jobs and pay levels. Figure 11-9 illustrates this. Here, the company’s previous six pay grades are consolidated into two broad grades or “broadbands.”

A company may create broadbands for all its jobs, or for specific groups such as managers or professionals. The (vertical) pay rate range of each broadband is relatively large, since it ranges from the minimum pay of the lowest grade the firm merged into the broadband up to the maximum pay of the *highest merged grade*. Thus, for example, instead of having 10 salary grades, each of which contains a salary range of ₹15,000, the firm might collapse the 10 grades into three broadbands, each with a set of jobs such that the difference between the lowest- and highest-paid jobs might be ₹40,000 or more. (Again, see Figure 11-9). For the jobs that fall in this broadband, there is therefore a much wider range of pay rates. You can move an employee from job to job within the broadband more easily, without worrying about the employee’s moving outside the (relatively) narrow rate range associated with a traditional narrow pay grade. This can make it easier to train someone on a higher level job, or to have them fill in for a time on a lower level job without worrying about pay levels.

comparable worth

The concept by which women who are usually paid less than men can claim that men in comparable rather than in strictly equal jobs are paid more.

Comparable Worth and Gender

Comparable worth refers to the requirement to pay men and women equal wages for jobs that are dissimilar but of comparable value (for instance measured in points) to the employer. This may mean comparing dissimilar jobs, such as nurses to mechanics. The question “comparable worth” seeks to address is this: Should you pay women who are performing jobs *equal* to men’s or just *comparable* to men’s the same as men?

Comparable worth has implications for job evaluation. By assigning points to dissimilar jobs, point plans facilitate comparability ratings among different jobs. Should employers still use point plans? Perhaps the wisest approach is for employers to price their jobs as they see fit (with or without point plans), but to also ensure that women have equal access to all jobs.

**Diversity Counts: The Pay Gap**

All this notwithstanding, women in the United States earn only about 81% as much as men.¹¹³ According to a study conducted by PayCheck India in collaboration with WageIndicator and published by the career website, Monster India, gender pay gap is a reality in India. In 2016, while Indian men working

in the formal sector earned ₹ 288.68 per hour, women earned only ₹ 207.85. This accounts for a 27% difference. While the manufacturing sector recorded the highest gap (34.9%), banking and finance had the lowest (17.7%).¹¹⁴ This seems true even among the most highly trained. For example, new female medical doctors earn about ₹17,000 per year less than their male counterparts.¹¹⁵ Reasons put forward for the gap include what one writer calls a “Motherhood Penalty” (women take more time off to care for the family, and are penalized career-wise for this), employer discrimination, the outdated notion that employers view women as having less leverage, the fact that professional men change jobs more often (gaining more raises in the process), and that women tend to end up in departments that pay less.¹¹⁶ In any case, it’s a problem employers have to recognize and address. ■

Board Oversight of Executive Pay

The company’s board of directors is responsible for setting and approving top executives’ pay, and boards today are scrutinizing that pay for two reasons: governmental regulation/legal, and shareholder activism/inequity.

Second, CEO pay compared with an average worker’s pay has mushroomed in the past 20 or so years—the gap is about six times larger than it was then.¹¹⁷ Boards therefore face shareholder activism on executive pay. Law firms file class-action suits demanding information from companies about their senior executive pay decisions.¹¹⁸ As of 2018, public corporations in the United States must compute the ratio of CEO to median company employee pay.¹¹⁹

- Has our compensation committee identified its duties and processes?
- Is our compensation committee using the appropriate compensation advisors?
- Are there particular executive compensation issues that our committee should address?
- Do our procedures demonstrate diligence and independence (including careful deliberations and records)?
- Is our committee appropriately communicating its decisions? How will shareholders react?¹²⁰

LEARNING OBJECTIVE 11-6

Describe the importance of total rewards for improving employee engagement.

Employee Engagement Guide for Managers

Total Rewards Programs

Total rewards is an important concept in compensation management. People bring to their jobs many needs—for challenging work and for respect and appreciation, for instance—not all of which are satisfied by pay or bonuses. “Total rewards’ encompass not only compensation and benefits but also personal and professional growth opportunities and a motivating work environment.”¹²¹ It includes not just traditional financial rewards (wages and incentives plus benefits and perks), but also nonfinancial and intangible rewards such as recognition, the nature of the job/quality of work, career development opportunities,¹²² good relationships with colleagues, organizational justice, trust in employees, feeling of being valued and involved, opportunities for promotion,¹²³ and a great work climate.¹²⁴ Specific total rewards also include recognition programs and redesigned jobs (discussed in Chapter 4), telecommuting programs, health and well-being programs, and training and career development.



TRENDS SHAPING HR: *DIGITAL AND SOCIAL MEDIA*

Non-cash recognition/appreciation rewards such as gift cards, merchandise, and recognition are parts of such total compensation.¹²⁵

New digital and social media tools enable employees to recognize and reward each other. For example, a West Virginia DuPont plant installed an online system that enabled employees to give each other recognition; 95% were soon using it.¹²⁶ International Fitness Holdings lets employees use a Facebook-type app to recognize peers by posting messages and sending private e-mails.¹²⁷ Many Indian companies also have introduced the on-line gifting concept, and allows employees to choose their gifts. According to a CHRO, this approach helps to personalize and motivate.¹²⁸ Employers contract with sites like Globoforce.com and zeta.in to provide online recognition systems. ■

Total Rewards and Employee Engagement

When it comes to employee engagement, both material and nonmaterial rewards—total rewards—seem essential.¹²⁹ For example, one study found that base pay and benefits alone were weakly related to engagement.¹³⁰ However, intangible rewards (such as the nature of the job/quality of work and career development opportunities) had high or very high impacts on engagement and performance, when combined with base salary and short-term incentives or bonuses.¹³¹

It's therefore not surprising that many high-engagement employers emphasize total rewards. For example, the values laid out in Toyota's famous "The Toyota Way" include mutual trust and respect, stable employment, helping employees to develop their technical skills, and providing extensive benefits such as childcare. Disney emphasizes providing employees with a total rewards package that includes pay plus various benefits and career development opportunities.¹³² Similarly, many "Best Companies to Work For" emphasize intangible rewards. For example, one top executive at NetApp takes an opportunity to call and thank several employees each day for their efforts; Whole Foods emphasizes employee involvement, for instance letting employees vote on new hires and see what all Whole Foods employees earn.¹³³ At SAS there is stimulating work, an empowering management philosophy, flexible work, and an emphasis on being happy at work.¹³⁴

In addition to offering such rewards, the employer should issue total reward statements periodically. List all the rewards—financial and nonfinancial—the company offers, and note their importance to the employees' overall well-being.¹³⁵ This increases their impact.

Chapter Review

Chapter Section Summaries

- 11-1.** In establishing strategic pay plans, managers first need to understand some **basic factors in determining pay rates**. Employee compensation includes both direct financial payments and indirect financial statements. The factors determining the design of any pay plan include legal, union, company strategy/policy, and equity.
- 11-2.** Employers use two basic approaches to setting pay rates: *market-based approaches* and **job evaluation methods**. Many firms, particularly smaller ones, simply use a *market-based* approach. Job evaluation methods involve assigning values to each of the company's jobs. This helps to produce a pay plan in which each job's pay is equitable based on its value to the employer. Popular job evaluation methods include ranking, job classification, and the point method.
- 11-3.** We said the process of **creating a market-competitive pay plan** while ensuring external, internal, and procedural equity consists of 16 steps as follows: (1) Choose benchmark jobs; (2) Select compensable factors; (3) Assign weights to compensable factors; (4) Convert percentages to points for each factor; (5) Define each factor's degrees; (6) Determine for each factor its factor degrees' points; (7) Review job descriptions and job specifications; (8) Evaluate the jobs; (9) Draw the current (internal) wage curve; (10) Conduct a market analysis: Salary surveys; (11) Draw the market (external) wage curve; (12) Compare and adjust current and market wage rates for jobs; (13) Develop pay grades; (14) Establish rate ranges; (15) Address remaining jobs; and (16) Correct out-of-line rates.
- 11-4.** **Pricing managerial and professional jobs** involves some special issues. Managerial pay typically consists of base pay, short-term incentives, long-term incentives, and executive benefits and, particularly at the top levels, doesn't lend itself to job evaluation but rather to understanding the job's complexity, the employer's ability to pay, and the need to be competitive in attracting top talent.
- 11-5.** We addressed five important **special topics in compensation**. More employers are moving from paying jobs based on their intrinsic duties toward paying jobs based on the competencies the job requires. Broadbanding means consolidating several rates and ranges into a few wide levels or "bands," each of which contains a relatively wide range of jobs in salary levels. Comparable worth refers to the requirement to pay men and women equal pay for jobs that are of comparable rather than strictly equal value to the employee. With many stockholders concerned with excessive executive remuneration, board oversight of executive pay has become an important issue, and boards of directors should use qualified advisors and exercise diligence and independence in formulating executive pay plans.
- 11-6.** Research shows that if **employee engagement** is the aim, it makes sense to emphasize total rewards, not just financial rewards. For example, one study found that base pay and benefits alone had a weak relationship with employee engagement. However, total rewards including intangible rewards such as the nature of the job/quality of work, and career development opportunities had a high or very high impact on engagement and performance, when combined with base salary and short-term incentives or bonuses.

Discussion Questions

- 11-1. What is the difference between exempt and nonexempt jobs?
- 11-2. Should the job evaluation depend on an appraisal of the jobholder's performance? Why? Why not?
- 11-3. What is the relationship between compensable factors and job specifications?
- 11-4. Define and give an example of how to conduct a job evaluation.
- 11-5. The average pay for most university or IIM professors is around ₹20,00,000 per year, but many earn much more. For example, annual reports of IIMs top paid faculty members. Discuss why you would (or would not) pay professors as much as or more than many corporate CEOs.
- 11-6. Do small companies need to develop a pay plan? Why or why not?

Individual and Group Activities

- 11-7. Working individually or in groups, conduct salary surveys for the following positions: entry-level accountant and entry-level chemical engineer. What sources did you use, and what conclusions did you reach? If you were the HR manager for a local engineering firm, what would you recommend that you pay for each job?
- 11-8. Working individually or in groups, develop compensation policies for the teller position at a local bank. Assume that there are four tellers: two were hired in May and the other two were hired in December. The compensation policies should address the following: appraisals, raises, holidays, vacation pay, overtime pay, method of pay, garnishments, and time cards.
- 11-9. Working individually or in groups, access relevant Web sites to determine what equitable pay ranges are for these jobs: chemical engineer, marketing manager, and HR manager, all with a bachelor's degree and 5 years' experience. Do so for the following cities: New Delhi, Mumbai, Bengaluru, Hyderabad, Kolkata and Lucknow. For each position in each city, what are the pay ranges and the average pay? Does geographical location impact the salaries of the different positions? If so, how?
- 11-10. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.
- 11-11. Working individually or in groups, use the point system described in steps 1 to 16 in this chapter. Do so for a job description that you find online—a list like that at <http://hiring.monster.com/hr/hr-best-practices/recruiting-hiring-advice/job-descriptions/sample-job-descriptions.aspx> is useful. To simplify things, assume there is only one compensable factor you have to use, and that it is job complexity, so that you can use Figure 11-5.
- 11-12. How do you think politicians in the United States should address the problem of income inequality?



Experiential Exercise

Ranking the College's Administrators

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you experience in performing a job evaluation using the ranking method.

Required Understanding: You should be thoroughly familiar with the ranking method of job evaluation and obtain job descriptions for your college's dean, department chairperson, director of admissions, library director, registrar, and your professor.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. The groups will perform a job evaluation of the positions of dean, department chairperson, and professor using the ranking method.

Perform a job evaluation by ranking the jobs. You may use one or more compensable factors.

11-13. If time permits, a spokesperson from each group can put his or her group's rankings on the board. Did the groups end up with about the same results? How did they differ? Why do you think they differed?

Application Case

Salary Inequities at AstraZeneca

Written and copyrighted by Gary Dessler, PhD.

More than 50 years after passage of the Equal Pay Act, women in America still earn about 80 cents for every dollar earned by a man. That adds up to a loss for the average female worker of about \$380,000 over a lifetime.

The U.S. Department of Labor's Office of Federal Contract Compliance Programs (OFCCP) entered into an agreement with AstraZeneca, a large international pharmaceuticals firm, for the company to pay some of its female sales associates a total of \$250,000.¹³⁶ AstraZeneca had a contract valued at over \$2 billion with the U.S. Department of Veterans Affairs to provide drugs to hospitals around the country. That made it subject to Executive Order 11246, which aims to ensure that employees of U.S. contractors and subcontractors with federal contracts pay their employees fairly without regard to sex, race, color, religion, and national origin.

After conducting a compliance review, the OFCCP concluded that AstraZeneca violated Executive Order 11246 by failing to ensure certain women employees were paid fairly. According to the OFCCP lawsuit, an AstraZeneca Business Center had routinely paid some of its female "primary care" and "specialty care" level III pharmaceutical sales specialists an average of \$1,700 less than

men with the same positions. Because of the company's pay secrecy policies, many of the women didn't know they were being paid less. In addition to the financial settlement, AstraZeneca and OFCCP will review records of the firm's female employees in 14 states. If they find additional statistical evidence of wage discrimination, the company must remedy it.

Questions

AstraZeneca has brought you in as a compensation consultant. Here are the questions they would like you to answer for them:

- 11-14.** Although the case with OFCCP is closed, we wonder if there are any less-discriminatory explanations possible for why our women sales reps on average earned less than men. If so, what are they?
- 11-15.** Our own company now uses a point method to evaluate jobs for pay purposes, and each resulting job class also has a rate range associated with it. Sales associates are now paid a salary that is not based on incentive pay. List three specific things we can do to ensure that a similar problem (inequitable pay based on gender) does not arise again, assuming they continue using the point plan.
- 11-16.** What sort of compensation plan would you recommend for us, and why?

Continuing Case

Carter Cleaning Company

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The New Pay Plan

Carter Cleaning Centers does not have a formal wage structure nor does it have rate ranges or use compensable factors. Wage

rates are based mostly on those prevailing in the surrounding community and are tempered with an attempt on the part of Jack Carter to maintain some semblance of equity between what workers with different responsibilities in the stores are paid.

Carter does not make any formal surveys when determining what his company should pay. He peruses the want ads almost every day and conducts informal surveys among his friends in

the local chapter of the laundry and cleaners trade association. While Jack has taken a “seat-of-the-pants” approach to paying employees, his salary schedule has been guided by several basic pay policies. Although many of his colleagues adhere to a policy of paying minimum rates, Jack has always followed a policy of paying his employees about 10% above what he feels are the prevailing rates, a policy that he believes reduces turnover while fostering employee loyalty. Of somewhat more concern to Jennifer is her father’s informal policy of paying men about 20% more than women for the same job. Her father’s explanation is, “They’re stronger and can work harder for longer hours, and besides they all have families to support.”

Questions

- 11-17. Is the company at the point where it should be setting up a formal salary structure based on a complete job evaluation? Why?
- 11-18. Is Jack Carter’s policy of paying 10% more than the prevailing rates a sound one, and how could that be determined?
- 11-19. Similarly, is Carter’s male–female differential wise? If not, why not?
- 11-20. Specifically, what would you suggest Jennifer do now with respect to her company’s pay plan?

Translating Strategy into HR Policies and Practices Case^S

Improving Performance at the Hotel Paris

The New Compensation Plan

The Hotel Paris’s competitive strategy is “To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability.” HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

Like several other HR systems at the Hotel Paris, the compensation program was unplanned and unsophisticated. The company has a narrow target range for what it will pay employees in each job category (front-desk clerk, security guard, and so forth). Each hotel manager decides where to start a new employee within that narrow pay range. The company has given little thought to tying general pay levels or individual employees’ pay to the company’s strategic goals. For example, the firm’s policy is simply to pay its employees a “competitive salary,” by which it means about average for what other hotels in the city are paying for similar jobs. Lisa knows that pay policies like these may actually run counter to what the company wants to achieve strategically, in terms of creating an extraordinarily service-oriented workforce. How can you hire and retain a top workforce, and channel its behaviors toward high-quality guest services, if you don’t somehow link performance and pay? She and her team therefore turn to the task of assessing and redesigning the company’s compensation plan.

Even the most casual review by Lisa Cruz and the CFO made it clear that the company’s compensation plan wasn’t designed to support the firm’s new strategic goals. For one thing, they knew that they should pay somewhat more on average than did their competitors if they expected employees to exceed expectations when it came to serving guests. Yet their review of a variety of metrics (including the Hotel Paris’s salary/competitive salary ratios, the total compensation expense per employee, and the target percentile for total compensation) suggested that in virtually all job categories the Hotel Paris paid no more than average and, occasionally, paid somewhat less.

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The current compensation policies had also bred what one hotel manager called an “I don’t care” attitude on the part of most employees. What she meant was that most Hotel Paris employees quickly learned that regardless of what their performance was, they always ended up getting paid about the same as employees who performed better and worse than they did. So, the firm’s compensation plan actually created a disconnect between pay and performance: It was not channeling employees’ behaviors toward those required to achieve the company’s goals. In some ways, it was doing the opposite.

Lisa and the CFO knew they had to institute a new, strategic compensation plan. They wanted a plan that improved employee morale, contributed to employee engagement, reduced employee turnover, and rewarded (and thus encouraged) the sorts of service-oriented behaviors that boosted guest satisfaction. After meeting with the company’s CEO and the board, the CFO gave Lisa the go-ahead to redesign the company’s compensation plan, with the overall aim of creating a new plan that would support the company’s strategic aims.

Lisa and her team (which included a consulting compensation expert) set numerous new measurable compensation policies for the Hotel Paris, and these new policies formed the heart of the new compensation plan. A new job evaluation study provided a more rational and fair basis upon which the company could assign pay rates. A formal compensation survey by the consultant established, for the first time at the Hotel Paris, a clear picture of what competitive hotels and similar businesses were paying in each geographic area, and enabled the Hotel Paris team to more accurately set targets for what each position at the hotel should be paying. Rather than just paying at the industry average, or slightly below, the new policy called for the Hotel Paris to move all its salaries into the 75th percentile over the next 3 years.

As they instituted the new compensation policies, Lisa and the CFO were pleased to learn from feedback from the hotel managers that they were already noting several positive changes. The number of applicants for each position had increased by over 50% on average, turnover dropped by 80%, and surveys of morale and commitment were producing higher results. Lisa and her team now began to consider how to inject more of a “pay

for performance” element into the company’s compensation plan, perhaps by instituting new bonuses and incentives. We will see what she did in Chapter 12.

Questions

- 11-21. Lisa knew little about setting up a new compensation plan. Based on what you learned here in Dessler *Human Resource Management*, what would you tell her if she asked, “How do I set up a new compensation plan for the Hotel Paris?”

- 11-22. Would you suggest that Hotel Paris implement a competency-based pay plan for its nonmanagerial staff? Why or why not? Outline what they need to do for one.
- 11-23. Devise a ranking job evaluation system for the Hotel Paris’s nonmanagerial employees (housekeepers, valets, front-desk clerks, phone operators, waitstaff, ground-keepers, and security guards), and use it to show the worth of these jobs relative to one another.

Key Terms

employee compensation, 397
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Davis-Bacon Act (1931), 398
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compa ratio, 421
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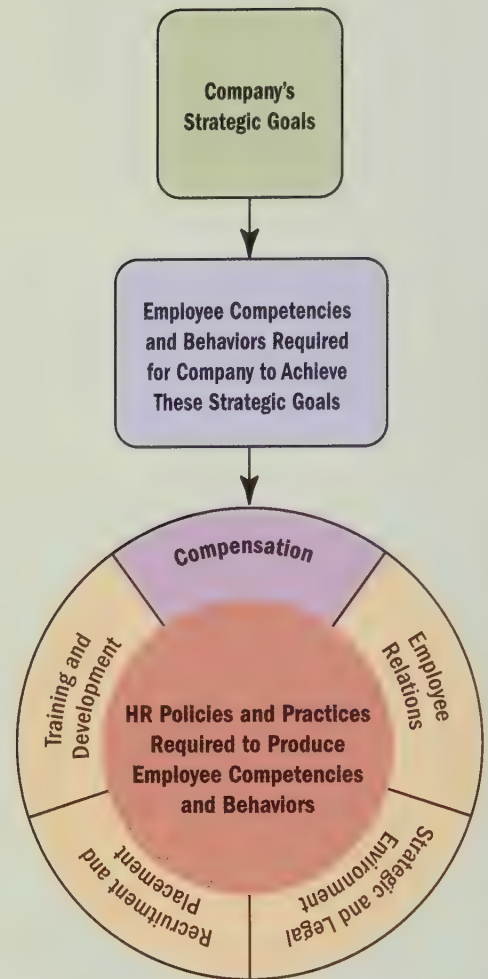
Pay for Performance and Financial Incentives

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 12-1** **Explain** how you would apply four motivation theories in formulating an incentive plan.
- 12-2** **Discuss** the main incentives for individual employees.
- 12-3** **Discuss** the pros and cons of commissions versus straight pay for salespeople.
- 12-4** **Describe** the main incentives for managers and executives.
- 12-5** **Name and describe** the most popular organization-wide incentive plans.
- 12-6** **Explain** how to use incentives to improve employee engagement.

The owners of a fast-food franchise in Ahmedabad knew that their stores' performance and profits depended on their employees' performance. They had to face competition from local hotels, other established fast-food chains, and the roadside *chai-kitlis*. They hoped that a new employee program could boost their employees' and their shops' performance. We'll see that they did.



WHERE ARE WE NOW . . .

Chapter 11 focused on developing pay plans and on salaries and wages. Incentives are important in any pay plan. The main purpose of this chapter is to explain how managers use incentives to motivate employees. The main topics we'll discuss are **Money's Role in Motivation, Individual Employee Incentive and Recognition Programs, Incentives for Salespeople, Incentives for Managers and Executives, Team and Organization-Wide Incentive Plans, and Incentives and Employee Engagement**. In Chapter 13, we'll turn to the financial and nonfinancial benefits that comprise the third component of employee compensation packages.

LEARNING OBJECTIVE 12-1

Explain how you would apply four motivation theories in formulating an incentive plan.

financial incentives

Financial rewards paid to workers whose production exceeds some predetermined standard.

productivity

The ratio of outputs (goods and services) divided by the inputs (resources such as labor and capital).

fair day's work

Output standards devised based on careful, scientific analysis.

scientific management movement

Management approach based on improving work methods through observation and analysis.

pay-for-performance

Any plan that ties pay to some measure of performance, such as productivity or profitability.

variable pay

Any plan that ties pay to productivity or profitability, usually as one-time lump payments.

Money's Role in Motivation

Frederick Taylor popularized using **financial incentives**—financial rewards paid to workers whose production exceeds some predetermined standard—in the late 1800s. As a supervisor at the Midvale Steel Company, Taylor was concerned with what he called “systematic soldiering”—the tendency of employees to produce at the minimum acceptable level. Some workers had the energy to run home and work on their houses after a 12-hour day. Taylor knew that if he could harness this energy at work, Midvale could achieve huge productivity gains. **Productivity** “is the ratio of outputs (goods and services) divided by the inputs (resources such as labor and capital).”¹

In pursuing his aim, Taylor turned to financial incentives. At the time, primitive incentive plans were in use, but were generally ineffective (because employers arbitrarily changed incentive rates).

Taylor made three contributions. He saw the need for formulating a “**fair day's work**,” namely precise output standards for each job. He spearheaded the **scientific management movement**, which emphasized improving work through observation and analysis. And he popularized using incentive pay to reward employees who produced over standard.

Incentive Pay Terminology

Managers often use two terms synonymously with incentive plans.² All incentive plans are **pay-for-performance** plans. They all tie employees' pay to the employees' performance. Some limit the term **variable pay** to group or team incentive plans,³ but most use *variable pay* to include any performance-based incentive plan.

Linking Strategy, Performance, and Incentive Pay

Incentive pay—tying worker pay to performance—is popular.⁴ The problem is that doing so is easier said than done. In an interesting experiment, United Airlines tried replacing its quarterly bonus with a lottery. Instead of getting quarterly bonuses when United attained its performance goals, qualified employees would instead be eligible to win, say, \$100,000 prizes. Employees revolted, and United returned to its bonus plan.⁵ Another incentive plan, at Levi Strauss, is widely assumed to have been the last nail in the coffin of Levi's U.S.-based production. The abnormally high level of incentive payment at Indian PSU, Food Corporation of India (FCI) had invited strong comments of the SC of India, where the term “seriously wrong” was used. Reportedly few workers of FCI, even earned ₹4 lakh per month, with incentives and overtime payment built in.⁶

Research on incentive plans is sketchy, but one older study found that just 28% of 2,600 U.S. workers said their companies' incentive plans motivated them. “Employees don't see a strong connection between pay and performance, and their performance is not particularly influenced by the company's incentive plan,” said one expert.⁷

One problem is that many incentive plans incentivize the wrong behavior. For example, a Wells Fargo Bank incentive plan pushed bank employees to hit high sales goals, such as selling eight bank products per customer.⁸ Bank employees opened accounts for thousands of customers without the customer's permission.⁹ At ethics workshops, managers told employees not to create fake bank accounts. But employees knew they had to meet their sales goals, so they opened fake accounts.¹⁰ Fines,

lawsuits, and the CEO's exit came next. A study of Indian Health workers in the public and private sectors, working in the two states, showed that both the groups rated job content and work environment as the most important motivators, higher than compensation. The public sector health workers gave higher ranking to good benefits and recognition of good work by supervisor than the workers in the private sector. Given the geographical and cultural diversity in India, managers and policy makers have to understand the unique motivating factors and local requirement while designing incentive schemes, particularly non-financial incentives.¹¹

Another big reason for incentive plans' often-dismal results is that incentives that may motivate some people won't motivate others. We'll review some motivation background next, and then go on to explain various incentive plans.

Motivation and Incentives

Several motivation theories have particular relevance to designing incentive plans.

MOTIVATORS AND FREDERICK HERZBERG Frederick Herzberg said the best way to motivate someone is to organize the job so that doing it provides the challenge and recognition we all need to help satisfy "higher-level" needs for things like accomplishment and recognition. These needs are relatively insatiable, says Herzberg, so challenging work provides a sort of built-in motivation generator. Doing things to satisfy a worker's "lower-level" needs for things like better pay and working conditions just keeps the person from becoming dissatisfied.

Herzberg says the factors ("hygienes") that satisfy lower-level needs are different from those ("motivators") that satisfy or partially satisfy higher-level needs. If *hygiene* factors (factors outside the job itself, such as working conditions, salary, and incentive pay) are inadequate, employees become dissatisfied. However, adding more of these hygienes (like incentives) to the job (supplying what Herzberg calls "extrinsic motivation") is an inferior way to try to motivate someone, because lower-level needs are quickly satisfied. Inevitably the person says, in effect, "I want another raise."

Instead of relying on hygienes, says Herzberg, managers interested in creating a self-motivated workforce should emphasize "job content" or *motivator* factors. Managers do this by enriching workers' jobs so that the jobs are more challenging, and by providing feedback and recognition—by making doing the job intrinsically motivating, in other words. In organizational psychology, **intrinsic motivation** is motivation that derives from the pleasure someone gets from doing the job or task. It comes from "within" the person, rather than from externally, such as from a financial incentive plan. Intrinsic motivation means that just doing the task provides the motivation. Herzberg makes the point that relying exclusively on financial incentives is risky. The employer should also provide the recognition and challenging work that most people crave.

intrinsic motivation

Motivation that derives from the pleasure someone gets from doing the job or task.

DEMOTIVATORS AND EDWARD DECI Psychologist Edward Deci's work highlights another potential downside to relying too heavily on extrinsic rewards: They may backfire. Deci found that extrinsic rewards could at times actually detract from the person's intrinsic motivation.¹² The point may be stated thusly: Be cautious in devising incentive pay for highly motivated employees, lest you inadvertently demean and detract from the desire they have to do the job out of a sense of responsibility.

expectancy

A person's expectation that his or her effort will lead to performance.

instrumentality

The perceived relationship between successful performance and obtaining the reward.

valence

The perceived value a person attaches to the reward.

EXPECTANCY THEORY AND VICTOR VROOM In general, people won't pursue rewards they find unattractive, or where the odds of success are very low. Psychologist Victor Vroom's expectancy motivation theory echoes these commonsense observations. He says a person's motivation to exert some level of effort depends on three things: the person's **expectancy** (in terms of probability) that his or her effort will lead to performance;¹³ **instrumentality**, or the perceived connection (if any) between successful performance and actually obtaining the rewards; and **valence**, which represents the perceived value the person attaches to the reward.¹⁴ In Vroom's theory:

$$\text{Motivation} = (E \times I \times V),$$

where E represents expectancy, I instrumentality, and V valence. If E or I or V is zero or inconsequential, there will be no motivation.

Vroom's theory has three implications for how managers design incentive plans.

- First, if employees don't *expect* that effort will produce performance, no motivation will occur. So, managers must ensure that their employees have the skills to do the job, and believe they can do the job. Thus, training, job descriptions, and confidence building and support are important in using incentives.
- Second, Vroom's theory suggests that employees must see the *instrumentality* of their efforts—they must believe that successful performance will in fact lead to getting the reward. Managers can accomplish this, for instance, by creating easy-to-understand incentive plans.
- Third, the reward itself must be of *value* to the employee. The manager should take into account individual employee preferences.

behavior modification

Using contingent rewards or punishment to change behavior.

BEHAVIOR MODIFICATION/REINFORCEMENT AND B. F. SKINNER Using incentives also assumes the manager understands how consequences affect behavior.¹⁵ Psychologist B.F. Skinner's findings are useful here. Managers apply Skinner's principles by using *behavior modification*. **Behavior modification** means changing behavior through rewards or punishments that are contingent on performance. For managers, behavior modification boils down to two main principles. First, that behavior that appears to lead to a positive consequence (reward) tends to be repeated, whereas behavior that appears to lead to a negative consequence (punishment) tends not to be repeated; and second, that managers can therefore get someone to change his or her behavior by providing the properly scheduled rewards (or punishment).

To arrange our discussion, we will organize the following sections around individual employee incentive and recognition programs, sales compensation programs, management and executive incentive compensation programs, and team- and organization-wide incentive programs. First, however, we look at some legal aspects of incentive plan design.

**KNOW YOUR EMPLOYMENT LAW*****Employee Incentives and the Law***

Various laws affect incentive pay. Under the Payment of Bonus Act, 1965, if the incentive the worker receives is in the form of a prize or cash award, the employer generally must *exclude the value of that award* when calculating



LEARNING OBJECTIVE 12-2

Discuss the main incentives for individual employees.

piecework

A system of pay based on the number of items processed by each individual worker in a unit of time, such as items per hour or items per day.

straight piecework

An incentive plan in which a person is paid a sum for each item he or she makes or sells, with a strict proportionality between results and rewards.

the worker's overtime pay for that pay period.¹⁶ So, unless you structure the incentive bonuses properly, the bonus itself becomes part of the wages. In India, according to the Code on Wages, 2019, that combines wages means all remuneration (other than overtime pay) which can be expressed as money. However, it does not cover any allowances [Section 2.21(i)]; value of house and amenities [Section 2.21(ii)]; traveling concessions [2.21(iii)]; any incentives, production, and attendance bonus [2.21(iv)]; social security or pension contribution by employer [Section 2.21(v)]; payment for retrenchment, gratuity and retirement benefits [Section 2.21(vi)]. If an employee is given free food or paid an allowance for food, then the value of food is considered as a part of salary for the calculation of bonus. Since April 1, 2014, workers who earn up to ₹21,000 per month are eligible for bonus. (Earlier the eligibility was ₹10,000 per month) ■

Individual Employee Incentive and Recognition Programs

Several incentive plans are particularly suited for use with individual employees.

Piecework

Piecework is the oldest incentive plan and still the most commonly used. Earnings are tied directly to what the worker produces. The person is paid a piece rate for each unit he or she produces. Thus, if Rakesh Kumar gets ₹4 apiece for stamping out doorjamb, then he would get, say, ₹800 for stamping out 200.

Developing a workable piece rate plan requires job evaluation and (ideally) industrial engineering. Job evaluation enables you to assign an hourly wage rate to the job in question. But the crucial issue is the production standard, and this is often developed by industrial engineers. The engineers state production standards in terms of a standard number of minutes per unit or a standard number of units per hour. In Rakesh's case, the job evaluation indicated that his doorjamb stamping job was worth ₹80 an hour. The industrial engineer determined that 20 jamb per hour was the standard production rate. Therefore, the engineered piece rate (for each doorjamb) was ₹80 divided by 20, which equals ₹4 per doorjamb.

With a **straight piecework** plan, Rakesh would be paid based on the number of doorjamb he produced; there would be no guaranteed minimum wage. However, today most employers must guarantee their workers a minimum wage. With a guaranteed piecework plan, Rakesh would be paid ₹40 per hour (the 2015 minimum wage) whether or not he stamped out 18 doorjamb per hour (at ₹0.40 each). But he would also get ₹4 for each unit over 18.

Piecework generally implies "straight piecework," a strict proportionality between results and rewards regardless of level of output. Thus, in Rakesh's case, he continues to get ₹4 a piece for stamping out doorjamb, even if he stamps out more than the planned, say, 500 per day. However, some piecework plans share productivity gains between worker and employer. For example, the employee might only get ₹3.50 per piece over 200 units per day, instead of ₹4. Other plans *boost* the employee's share once a threshold is met—such as paying Rakesh ₹4.50 each once he reached 200 units per day.

The **standard hour plan** is like the piecework plan, with one difference. Instead of getting a rate per piece, the worker gets a pay premium equal to the percent by which his or her performance exceeds the standard. So if Rakesh

standard hour plan

A plan by which a worker is paid a basic hourly rate but is paid an extra percentage of his or her rate for production exceeding the standard per hour or per day. Similar to piecework payment but based on a percent premium.

standard is 160 doorjams per day (₹640 per eight hour day), and he actually makes 200 jams, he'd get an extra 25% (40/160), or ₹800. Using this approach may reduce workers' tendency to link their production standard (18 jams per hour) to pay. This makes it easier to change the standard.

ADVANTAGES AND DISADVANTAGES Piecework incentive plans have several advantages. They are simple to calculate and easily understood by employees. Piecework plans appear equitable in principle, and their incentive value can be powerful since they tie pay directly to performance.

Piecework also has disadvantages. One is an unsavory reputation, based on employers' habit of arbitrarily raising production standards whenever workers earned "excessive" wages. A more subtle drawback is that because piece rates are quoted on a per piece basis, in worker's minds the production standard (in pieces per hour) becomes tied inseparably to what they earn. Piecework plans can thus engender rigidity. When the employer tries to raise production standards, resistance ensues. Employees may similarly focus less on quality, and may resist switching jobs (since doing so could reduce productivity). Attempts to introduce new processes may more likely fail, insofar as they require adjusting engineering standards. Even equipment maintenance may suffer as employees push to hit quotas.

Merit Pay as an Incentive

Merit pay or a **merit raise** is a salary increase the firm awards to an individual employee based on individual performance. It is different from a bonus in that it usually becomes part of the employee's base salary, whereas bonuses are generally one-time payments. Although the term *merit pay* can apply to the incentive raises given to any employee, the term is more often used for professional, office, and clerical employees. Indian Accounting Firm, CMRS & Associate LLP has a defined merit increment policy which considers multiple factors like company performance, department performance, individual contribution and stakeholder feedback to decide the quantum. The policy further states that such increase is not matter of right for employee.¹⁷

Merit pay has pros and cons. Advocates say granting pay raises across the board (*without* regard to merit) reduces performance by rewarding employees regardless of how they perform. Detractors argue, most notably, that since most appraisals are unfair, so too are the merit decisions based on them.

The evidence is mixed. For example, one study in a nuclear waste facility found a "very modest relationship between merit pay increase and performance rating."¹⁸ Studies of merit pay for teachers found that merit pay was more linked to research productivity than to teaching effectiveness.¹⁹ A recent survey found that only 20% of employers in North America said merit pay drives higher levels of performance.²⁰ (This survey also concluded that awarding raises for demonstrating job-critical knowledge and skills was the better option.)²¹

If a merit pay plan isn't working, one sensible reaction is to improve it. This starts with establishing effective appraisal procedures, to ensure that managers actually do tie merit awards to performance. Similarly, merit plan effectiveness requires really differentiating among employees. In one survey, the highest-paid office clerical employees got short-term incentive payouts of about 13%, the lowest-rated got 3%, and mid-rated employees got 8%.²²

merit pay (merit raise)

Any salary increase awarded to an employee based on his or her individual performance.

HR in Action at the Hotel Paris Based on their analysis, Lisa Cruz and the CFO concluded that, by any measure, their company's incentive plan was inadequate. The percentage of the workforce whose merit increase was tied to performance was effectively zero, because managers awarded merit pay across the board. To see how they handled this, see the case on page 470.

MERIT PAY OPTIONS Two merit pay adaptations are popular. One awards merit raises in a lump sum once a year (making them, in effect, short-term bonuses for lower-level workers). Many Indian firms follow this pattern of annual increments or salary increases. Quantum of increase varies depending on hierarchical level and experience (Though there has been recommendations to introduce merit pay, government employees in India receive increments irrespective of performance). Traditional merit increases become part of the employee's salary, but these *lump-sum merit raises* do not. This has two benefits. First, the merit raise is not baked into the employee's salary, so you need not pay it year after year. Lump-sum merit increases are also more dramatic. For example, a 5% lump-sum merit payment to a ₹500,000 employee is ₹50,000 annual cash, as opposed to a weekly merit payout of about ₹4,166 for 12 months.

The other adaptation ties merit awards to both individual and organizational performance. Table 12-1 shows an example. In this example, you measure company performance by profits. Here, company performance and the employee's performance (using his or her performance appraisal) receive equal weight in computing merit pay. In Table 12-1 an outstanding performer would receive 70% of his or her maximum lump-sum award even when the company's performance is marginal. However, employees with marginal or unacceptable performance get no lump-sum awards even when the firm's performance was outstanding. Alternatively, you might decide to award, say, 60% of someone's bonus based on the supervisor's appraisal, 30% based on department performance, and 10% based on company performance.

Incentives for Professional Employees

Professional employees are those whose work involves the application of learned knowledge to the solution of the employer's problems, such as lawyers and engineers.

Making incentive pay decisions for professional employees is challenging. For one thing, firms usually pay professionals well anyway. For another, they're already driven by the desire to produce high-caliber work.

However, it is unrealistic to assume that people like Google engineers work only for professional gratification. Few firms, therefore, work harder than Google to maintain competitive incentives for professionals. For example, Google reportedly pays higher incentives to engineers working on important projects. Those who choose the intrinsic motivation of working on more theoretical long-term projects are rewarded if their research pays off.²³ As at most Silicon Valley firms, Google's professionals also bask in the light of potentially millionaire-making stock option grants. Sometimes, consulting professionals and involving them in salary decisions can be helpful. Giant Tree an London based funding support firm allows employees to decide their own salary and determine salary hikes when they feel they deserve it.²⁴ Ahmedabad based hiring solutions company, Addrec Solutions also does the same.²⁵ Addrec's customer facing employees decide on salary they want for the year, and agree to earn 5 times equivalent revenue.

Dual-career ladders are another way to manage professionals' pay. At many employers, higher pay requires rerouting from, say, engineering into

TABLE 12-1 Merit Award Determination Matrix (an Example)

The Employee's Performance Rating	The Company's Performance				
	Outstanding	Excellent	Good	Marginal	Unacceptable
Outstanding	1.00	0.90	0.80	0.70	0.00
Excellent	0.90	0.80	0.70	0.60	0.00
Good	0.80	0.70	0.60	0.50	0.00
Marginal	—	—	—	—	—
Unacceptable	—	—	—	—	—

Note: To determine the financial value of each employee's award: (1) multiply the employee's annual, straight-time wage or salary as of June 30 times his or her maximum incentive award (as determined by management or the board—such as, “10% of each employee's pay”) and (2) multiply the resultant product by the appropriate percentage figure from this table. For example, if an employee had an annual salary of ₹4,00,000 on June 30 and a maximum incentive award of 7% and if her performance and the organization's performance were both “excellent,” the employee's award would be ₹22,400 ($₹4,00,000 \times 0.07 \times 0.80 = ₹22,400$)

management. However, not all professionals want management. Therefore, many employers institute one career path for managers, and another for technical experts, allowing the latter to earn higher pay without switching to management.²⁶



Nonfinancial and Recognition-Based Awards

Employers often supplement financial incentives with various non-financial and recognition-based awards. Deloitte's Global Human Capital Trend report, 2018 notes that progressive firms across countries are aligning reward structure with individual preferences. Many firms also allow reward to employees that align with the company culture. Tata Communications believe that young employees (the average age is 35 years in the company) need to be recognized differently. Thus, exceptional business impact.²⁷ The term *recognition program* usually refers to formal programs, such as employee-of-the-month programs. *Social recognition program* generally refers to informal manager–employee exchanges such as praise, approval, or expressions of appreciation for a job well done. *Performance feedback* means providing quantitative or qualitative information on task performance so as to change or maintain performance; showing workers a graph of how their performance is trending is an example.²⁸



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA²⁹

Employers are bulking up their recognition programs with digital support. For example, Baudville offers a workplace recognition e-card service called ePraise. Employers use this to tell employees they're appreciated. Intuit shifted its employee recognition, years of service, patent awards, and wellness awards programs to Globoforce.com, an online awards vendor. This “allowed us to build efficiencies and improved effectiveness” into the programs, says Intuit.³⁰

Various new apps let employees showcase their awards, contributions, and praise from coworkers, and enable employees to praise each other.³¹ For example, one lets employees “give recognition by picking out a badge and typing in a quick note to thank the people who matter most....” Others let users post the positive feedback they receive to their LinkedIn profiles.

Mobile technology is also changing how employers incentivize front-line service people. For example, pay for an espresso in many coffeehouses with a credit card and the iPad screen will ask how big a tip you want to leave. ■

Most employers offer both financial and nonfinancial awards. At one U.S. company, customer service reps who exceed standards receive a plaque, a \$500 check, their photo and story on the firm's intranet, and a dinner for themselves and their teams.³² One survey of 235 managers found the most-used financial and nonfinancial rewards (from most used to least) were:³³ employee recognition, gift certificates, special events, cash rewards, merchandise incentives, e-mail/print communications, training programs, work/life benefits, variable pay, group travel, individual travel, and sweepstakes. The HR Tools feature elaborates.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

The supervisor should not rely only on the employer's financial incentive plans for motivating subordinates. There are simply too many opportunities to motivate employees every day to let those opportunities pass. What to do?

First, the best option for motivating an employee is also the simplest—*make sure the employee has a doable goal* and that he or she agrees with it. It makes little sense to try to motivate employees with incentives if they don't know their goals or don't agree with them. Psychologist Edwin Locke and his colleagues have consistently found that specific, challenging goals lead to higher task performance than do specific unchallenging goals; vague goals (“do your best”); or no goals.

Second, *recognizing an employee's contribution* is a powerful motivation tool. Studies show that recognition has a positive impact on performance, either alone or combined with financial rewards. For example, in one study, combining financial rewards with recognition produced a 30% performance improvement in service firms, almost twice the effect of using each reward alone. Figure 12-1 presents a list.

FIGURE 12-1 Social Recognition and Related Positive Reinforcement Managers Can Use

Source: Based on Bob Nelson, *1001 Ways to Reward Employees* (New York: Workman Publishing, 1994), p. 19; Sunny C. L. Fong and Margaret A. Shaffer, “The Dimensionality and Determinants of Pay Satisfaction: A Cross-Cultural Investigation of a Group Incentive Plan,” *International Journal of Human Resource Management* 14, no. 4 (June 2003), p. 559 (22).

- | | |
|--|---|
| • Challenging work assignments | • Being provided with ample encouragement |
| • Freedom to choose own work activity | • Being allowed to set own goals |
| • Having fun built into work | • Compliments |
| • More of preferred task | • Expression of appreciation in front of others |
| • Role as boss's stand-in when he or she is away | • Note of thanks |
| • Role in presentations to top management | • Employee-of-the-month award |
| • Job rotation | • Special commendation |
| • Encouragement of learning and continuous improvement | • Bigger desk |
| | • Bigger office or cubicle |

Third, use *social recognition* apps for positive reinforcement. As noted earlier, online tools such as Globoforce (www.globoforce.com/how-it-works/superior-innovation/social-recognition/) enable employees to recognize each other's contributions in real time, and encourage them to emulate outstanding behaviors.³⁴ One pitfall to avoid: awarding points for recognizing colleagues can lead to excessive compliments.³⁵ ■

HR AND THE GIG ECONOMY: RECOGNITION, NONFINANCIAL REWARDS, AND GIG WORKERS

Some assume that pay is all that matters to gig workers, but that's not the case. One study found that gig workers will exhibit intrinsic motivation (motivation that comes from "inside" the person, driving him or her to do a good job), if the workers identify with the organization.³⁶ How to accomplish that? According to Mercer, a human resource management consultant, employers can do at least three things.³⁷

Provide Meaning and Structure

Everyone wants to feel they're contributing in a meaningful way. Use company communications to provide gig workers with a context within which to understand how they're contributing to the company's success.

Create a Sense of Belonging and Connection

At work most people want to feel that they're part of a community. Take steps to make gig workers feel they're part of something, such as through online communities where they share stories and ideas.

Value and Respect Your Workforce

Treat your gig workers (and all workers) respectfully, and consider rewarding their progress with things like badges based on customer ratings. An Indian online food delivery company that engaged gig workers extensively, redesigned the workforce strategy to provide pride and respect to the workers. Customers were requested to consider the worker as a professional and address by name, rather than a faceless worker.³⁸ Similar strategy was adopted by Sun TV for its DTH technicians.

Job Design

Although not usually considered an "incentive," job design (discussed in Chapter 4) can affect employee motivation. A study by Harvard Business School researchers concluded that job design is a primary driver of employee engagement. Another by Sibson Consulting concluded that job responsibility and feedback were the fifth- and seventh-most important drivers of employee engagement. Another study concluded that challenging work ranked as the seventh-most important driver for attracting employees.³⁹ Job design can thus be a useful part of a total rewards program. In the context of India's lay health care workers, (ASHA) a study suggested the better job design which focuses on decreasing/managing job demands (number of job tasks involved, high cognitive demand for job, stakeholder expectations, etc.), increasing/enhancing job resources (training, feedback, technology tools, etc.) and reducing/managing stressors (reward-efforts imbalance, structuring work) can enable better performance.⁴⁰ Another study on ASHA workers indicated that designing work accordingly to suit ASHA workers' social profile and better financial and non-financial reward design can act as a motivator.

The Strategic Context feature illustrates how employers combine incentives to boost profits.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

The Fast-Food Chain

The heart of just about any fast-food chain's strategy is to control performance: One asked, "Can financial and nonfinancial incentives boost performance in our fast-food chain?"

Two researchers studied the impact of financial and nonfinancial incentives on business performance in 21 stores of a Midwest fast-food franchise.⁴¹ The researchers compared performance over time in stores that did and did not use financial and nonfinancial incentives. Each store had about 25 workers and two managers. The researchers trained the managers to identify measurable employee behaviors that were currently deficient but that could influence store performance. Example behaviors included "keeping both hands moving at the drive-through window" and "repeating the customer's order back to him or her."⁴² Then the researchers instituted financial and nonfinancial incentive plans. They measured store performance in terms of gross profitability (revenue minus expenses), drive-through time, and employee turnover.

Financial Incentives

Some employees in some of the stores received financial incentives for exhibiting the desired behaviors. The financial incentives consisted of lump-sum bonuses in the workers' paychecks. For example, if the manager observed a work team exhibiting up to 50 behaviors (such as "working during idle time") during the observation period, he or she added \$25 to the paychecks of all store employees that period; 50 to 100 behaviors added \$50 per paycheck, and more than 100 behaviors added \$75 per paycheck. Payouts eventually rose over time as the employees learned to enact the behaviors they were to exhibit.

Nonfinancial Incentives

The researchers trained the managers in some stores to use nonfinancial incentives such as feedback and recognition. For example, for *performance feedback* managers maintained charts showing the drive-through times at the end of each day. They placed the charts by the time clocks. Thus, these store employees could keep track of their store's performance on measures like drive-through times. The researchers also trained managers to administer *recognition* to employees. For instance, "I noticed that today the drive-through times were really good."⁴³

Results

Both the financial and nonfinancial incentives improved employee and store performance.⁴⁴ For example, store profits rose 30% for those units where managers used financial rewards. Store profits rose 36% for those units where managers used nonfinancial rewards. During the same 9-month period, drive-through times decreased 19% for the financial incentives group, and 25% for the nonfinancial incentives groups. Turnover improved 13% for the financial incentives group, and 10% for the nonfinancial incentives group.

Implications for Managers

Here is what these findings mean for managers designing incentive plans:⁴⁵

1. Link the incentive to behavior that is crucial for achieving strategic goals.⁴⁶ For example, this chain wanted to boost store performance and profits. Incentivizing employees to work faster and smarter accomplished that.
2. The point of an incentive is to motivate the person to work better. Therefore, it makes more sense to use an incentive plan when (1) motivation (not ability) is the problem; (2) when the employee's effort and results are directly related; and (3) when the employee can actually control the results you plan to incentivize. Put another way, make sure there is a clear link between the person's *effort and performance* and between the *performance and reward*, that the incentive is *attractive* to the employee, and that the employee *has the skills* to do the job.

3. Don't just rely on material rewards. Support the incentive plan with performance feedback (like the performance graphs) and with recognition.⁴⁷
4. Set complete standards. For example, don't just pay for "repeating the customer's order" if speed is important too.
5. Be scientific. As in this study, *gather evidence*, and analyze the effects of the incentive plan over time.⁴⁸

LEARNING OBJECTIVE 12-3

Discuss the pros and cons of commissions versus straight pay for salespeople.

Incentives for Salespeople

As one survey said, "the performance metrics given to the sales team must drive behaviors that will help the company's . . . strategy to be successful."⁴⁹ Unfortunately, that survey also found that "30% of respondents believe their sales compensation program rewarded the right behaviors 'not well' or 'very poorly.'"⁵⁰ Employers are therefore moving to align how they measure and reward their salespeople, with their firms' strategic goals.⁵¹

Salary Plan

Sales compensation plans focus on salary, commissions or incentives, or some combination of the two.⁵² Some firms pay salespeople fixed salaries (perhaps with occasional incentives such as bonuses, sales contest prizes, and the like).⁵³ Straight salary makes sense when the main aim is prospecting (finding new clients) or account servicing. Recruiting is another reason. Faced with difficulty attracting good salespeople, a car dealership in Lincolnton, North Carolina, U.S. offers straight salary as an option to salespeople who sell an average of at least eight vehicles a month (plus a small "retention bonus" per car sold).⁵⁴ Many MSMEs and direct sales companies selling insurance, credit cards and holiday plans use this method. Straight salary also makes it easier to switch salespersons' territories. The main disadvantage, of course, is that straight salary lacks commissions' motivation potential.

Commission Plan

Straight commission plans pay salespeople only for results. Commission plans tend to attract high-performing salespeople because they see that effort produces rewards. Sales costs are proportionate to sales rather than fixed, and the company's fixed sales costs are thus lower. Such plans are easy to understand and compute. Commission plan alternatives include straight commissions, quota bonuses (for meeting particular quotas), management by objectives programs (pay is based on specific metrics), and ranking programs (which reward high achievers but pay little or no bonuses to the lowest-performing salespeople).⁵⁵ About half of companies surveyed use "top-line" measures like revenue, while the others use bottom-line criteria like profits; some also use nonsales measures.⁵⁶ Agents of Life Insurance Corporation of India (LIC) works on a strong commission plan. The commission paid depends on term and type of policy (Endowment/Money back) and the amount is higher for the first year premium after which (renewal commission) it tapers down.⁵⁷

However, in poorly designed plans, salespeople may focus on making the sale, and neglect nonselling duties such as servicing small accounts and pushing hard-to-sell items. To prevent such behaviors, Ministry of Consumer Affairs, GOI has published a model framework which makes inducement by direct seller an offence.⁵⁸ Wide variations in pay can make some feel the plan is inequitable. Misjudging sales potential can lead to excessive commissions and

to having to cut commission rates. Salespersons' pay may be excessive in boom times and low in recessions. Furthermore, sales performance—like any performance—reflects not just motivation, but also ability. If the person can't sell, commissions won't help.⁵⁹

Combination Plan

Most companies pay salespeople a combination of salary and commissions. The combination varies by industry and by what the company hopes to achieve, but a split of about 60%–70% base salary and 40%–30% incentive seems typical.⁶⁰

Combination plans have pros and cons.⁶¹ They give salespeople a floor to their earnings, let the company specify what services the salary component is for (such as servicing current accounts), and still provide a performance incentive. But the salary isn't tied to performance, so the employer trades away some incentive value.

Combination plans also tend to be complicated, so misunderstandings can ensue. This isn't a problem with a simple salary-plus-commission plan, but most plans aren't so simple. For example, in a "commission-plus-drawing-account" plan, the salesperson is paid based on commissions. However, he or she can draw on future earnings during low sales periods. In the "commission-plus-bonus" plan, the firm pays its salespeople mostly based on commissions. However, they also get a small bonus for directed activities like selling slow-moving items.

Maximizing Sales Results

In setting sales quotas and commission rates, one wants to motivate sales activity but avoid excessive commissions. Unfortunately, the tendency to set commission rates informally often reduces such plans' effectiveness.⁶²

Setting effective quotas is an art. Questions to ask include: Are quotas communicated to the sales force within 1 month of the start of the period? Does the sales force know how their quotas are set? Do you combine bottom-up information (like account forecasts) with top-down requirements (like the company business goals)? Are returns and de-bookings reasonably low?⁶³

One expert suggests this rule as to whether the sales incentive plan is effective: 75% or more of the sales force achieving quota or better, 10% of the sales force achieving higher performance level (than previously), and 5% to 10% of the sales force achieving below-quota performance and receiving coaching.⁶⁴ Also consider the effect of sales carryover: In most firms, a significant portion of the sales in one year reflects a "carryover" (sales that would repeat even without any efforts by the sales force) of sales from the prior year. Paying the sales force a commission on all the current year's sales means the employer pays a commission on last year's carryover sales, which the salesperson had little or no role in bringing in this year.⁶⁵

A survey of sales effectiveness reveals that salespeople at high-performing companies:

- Receive 38% of their total cash compensation in the form of *sales incentive pay* (compared with 27% for salespeople at low-performing companies)

- Are twice as likely to receive stock, *stock options*, or other equity pay as their counterparts at low-performing companies (36% versus 18%)
- Spend 264 more hours per year on *high-value sales activities* (e.g., prospecting, making sales presentations, and closing) than salespeople at low-performing companies
- Spend 40% more time each year with their *best potential customers*—qualified leads and prospects they know—than salespeople at low-performing companies
- Spend nearly 25% *less time on administration*, allowing them to allocate more time to core sales activities, such as prospecting leads and closing sales⁶⁶

Distinguishing among performers is also important. For example, some companies distinguish among stars, laggards, and core sales performers. Companies that limit commission earnings can perversely encourage stars to stop selling when they reach their quotas. Laggards do better with more frequent, quarterly bonuses and social pressure to improve. Core performers—the midrange of the sales force—need multitier targets. The first tier target is what sales agents historically attain. The second tier is what a small percentage of the sales force attains. The third tier target is usually only attained by the company’s star salespeople.⁶⁷ One expert advocates “acceleration”: here the commission rate rises for those who meet their sales targets.⁶⁸ Finally, track cost of sales—for instance, a salesperson’s *salary* plus *commissions* (assuming 100% of quota) plus *bonus* opportunities—divided by that person’s sales revenues.⁶⁹

ENTERPRISE INCENTIVE MANAGEMENT Many employers use Enterprise Incentive Management (EIM) software to track and control sales commissions.⁷⁰ For example, Oracle Sales Cloud enables management to easily create scorecard metrics such as number of prospecting calls and sales contracts, and to monitor these in real time on the system’s dashboards.⁷¹ It also helps users gamify the sales incentive process, by awarding points or badges based on each salesperson’s performance.

Sales Incentives in Action

Traditionally, a car salesperson’s commission is based on a percentage of the difference between the dealer’s invoice cost and the amount the car is sold for, minus an amount to cover the “pack” or dealer overhead (the pack being perhaps ₹5,000 for a new car to ₹10,000 for a used car, and rising for pricier cars).⁷²

This approach encourages the salesperson to hold firm on the retail price, and to push “after-sale products” like floor mats and side moldings. There may also be extra incentives to sell packages such as rustproofing. For selling slow-moving vehicles, the salesperson may get a “spiff”—an extra incentive bonus over commission. And there are bonuses, such as Salesperson of the Month (perhaps ₹5,000 for most cars sold).⁷³

Commission plans like these still dominate, but not as much. Many dealers are substituting salary plus bonus plan for commissions. This reflects the growing emphasis on “one price no hassle pricing.”⁷⁴ But in either case, the pay plan’s aim is to produce the salesperson behaviors the dealership needs to support its strategic aims.



LEARNING OBJECTIVE 12-4

Describe the main incentives for managers and executives.

Incentives for Managers and Executives

Managers play a crucial role in divisional and company-wide profitability, and most employers therefore think through how to reward them. Most managers get short-term and long-term incentives in addition to salary. Short-term incentives might include, for instance, annual incentive plans (which reward achieving preset results and are usually paid in cash), discretionary bonuses (based on performance), retention bonuses, and the manager's share of any profit-sharing plan.⁷⁵ To link shareholders' and managers' interests, long-term incentives are often paid in stock or stock options.

Strategy and the Executive's Long-Term and Total Rewards Package

Whether consolidating operations or pursuing growth, firms can't fully implement most strategies in just 1 or 2 years. Therefore, the long-term signals you send managers via long-term incentives can determine whether the firm's strategy succeeds.

The executives' reward components—base salary, short-and long-term incentives, and benefits—must align with each other and with the company's strategic aims. Compensation experts suggest first specifying the strategic aims—"What is our strategy, and what are our strategic goals?"—and then deciding what long-term behaviors (boosting sales, cutting costs, and so on) are important for achieving these strategic aims. Next shape each component of the executive total compensation package (base salary, short-and long-term incentives, and benefits) to encourage these required behaviors; then combine the components into a plan. The point is this: Each pay component should help focus the manager's attention on the behaviors required to achieve the company's strategic goals.⁷⁶

Using multiple, strategy-based performance criteria for incentivizing executives is best. Criteria include financial performance, number of strategic goals met, employee productivity measures, customer satisfaction surveys, and employee morale surveys.⁷⁷

One expert estimates that the typical CEO's salary accounts for about one-fifth of his or her pay. A bonus based on explicit short-term performance standards accounts for another fifth, and long-term incentive awards such as stock options and long-term performance plans account for the remaining three-fifths.⁷⁸ Ideally, the performance standards should include a combination of market benchmarks (such as performance against competitors) as well as business performance standards (such as earnings per share growth).



SARBANES–OXLEY U.S. The Sarbanes–Oxley Act of 2002 affects how U.S. employers formulate their executive incentive programs. Congress passed Sarbanes–Oxley to inject a higher level of responsibility into executives' and board members' decisions. It makes them personally liable for violating their fiduciary responsibilities to their shareholders. The act also requires CEOs and CFOs of a public company to repay any bonuses, incentives, or equity-based compensation received from the company during the 12-month period following the issuance of a financial statement that the company must restate due to material noncompliance with a financial reporting requirement stemming from misconduct.⁷⁹

TOP MANAGEMENT REMUNERATION IN INDIA The Companies Act 2013, Section 197 regulates the compensation of top management (or key management personnel) of public companies in India. The act along with Companies (Appointment and Remuneration of Managerial Personnel) Rules 2014 deals

with both legal and process part of the compensation for key personnel. The key managerial personnel are (Section 2(51)) (i) the Chief Executive Officer or the managing director or the manager; (ii) the company secretary; (iii) the whole-time director; (iv) the Chief Financial Officer; and (v) such other officer as may be prescribed.



Short-Term Incentives and the Annual Bonus

For better or worse, employers are shifting away from long-term incentives to put more emphasis on short-term performance and incentives.⁸⁰ Most firms have **annual bonus** plans for motivating managers' short-term performance. Such short-term incentives can easily produce plus-or-minus adjustments of 25% or more to total pay. Three factors influence one's bonus: eligibility, fund size, and individual performance.

A study on Executive Bonus payment practices in India between 2008 to 2015, conducted by the second author of this book and team identified five types of bonus payment.⁸¹ Performance Bonus: Paid based on employee's performance (individual). Payout differs according to duration of experience, seniority in the company and occupational level. End-of-year bonus: Lump sum amount paid, generally depends on company/firm performance. Festival Bonus: Paid for different festive seasons, often irrespective of performance. Diwali Bonus is a popular example. Profit-share bonus: Payout tied to profitability. Other annual bonuses (OABs): Any other types of bonus (paid to employee).

annual bonus

Plans that are designed to motivate short-term performance of managers and that are tied to company profitability.

ELIGIBILITY Employers first decide eligibility. Traditionally, most based annual bonus eligibility on job level/title, base salary, and/or officer status. Some simply based eligibility on job level or job title, or salary.⁸² Recently, more employers were offering a broader range of employee annual incentive plans "... in which both executives and other employees participate."⁸³

The trend is evident from surveys of what determines bonus plan eligibility. Rather than job title or officer status, *salary grade or band* was the most common eligibility determinant, reported by 42% of employers in one survey. This was followed by *title/reporting relationship* (24%), *officer status* (13%), *compensation committee approval* (11%), *discretionary* (6%), and *base salary* (2%).⁸⁴

The percentage size of any bonus is typically greater for top executives. Thus, in the U.S. context an executive earning \$250,000 in salary may be able to earn another 80% of his or her salary as a bonus, while a manager in the same firm earning \$100,000 can earn only another 30%. In one year, Microsoft's CEO was eligible for an annual bonus of up to 100% of his salary (but collected only half). A typical bonus percentage might be executives, 45% of base salary; managers, 25%; and supervisory personnel, 12%.

FUND SIZE Second, one must determine how big the annual bonus fund should be. Most employers (33% in one survey) use the sum of targets approach.⁸⁵ This means they estimate the likely bonus for each eligible ("target") employee, and total these to arrive at the bonus pool's size.

However, more employers are funding the short-term bonus based on financial results. Here there are no fixed rules about how much of the profits to pay out. One alternative is to reserve a minimal amount of the profits, say, 10%, for safeguarding stockholders' investments. Then establish a fund for bonuses equal to, say, 20% of the operating profit (profit from the company's core business) before taxes in excess of this safeguard amount.

Most employers use more than one financial measure on which to base the bonus fund; sales, earnings per share, and cash flow are the most popular.⁸⁶ Other illustrative formulas include:

- Twelve percent of net earnings after deducting 6% of net capital
- Ten percent of the amount by which net income exceeds 5% of stockholders' equity

Employers also use formulas to set their bonus pools based on other measures they wish to emphasize. For example, Transocean Ltd., the firm that managed the Deepwater Horizon Gulf oil rig that sank in 2010, uses a formula that includes "safety" as 25% of the formula. After the Gulf explosion, senior Transocean executives donated safety bonuses to the victims' families.⁸⁷ Other firms decide bonuses on a discretionary basis. Many Indian companies, including Hindustan Unilever, ITC Ltd, RPG, Godrej Group, etc., in spite of recession reported that during 2019 festival seasons they will continue to pay statutory bonus (8.33%) to workers and around 15% to officers.⁸⁸

THE INDIVIDUAL AWARDS Finally, one must decide the actual individual awards. Typically, the employer sets a target bonus (as well as maximum bonus, perhaps double the target bonus) for each eligible position. The actual bonus then reflects the manager's performance. For example, having previously decided which financial performance measures (return on assets, revenue growth, and so on) to use to measure each manager's performance, the employer computes preliminary total company bonus estimates, and compares the total amount of

Even in retail stores, it's not unusual to compensate managers partly based on short-term sales and profits.



Troika / Alamy Stock Photo

money required with the bonus fund available.⁸⁹ If necessary, it then adjusts the individual bonus estimates. In any case, outstanding managers should receive at least their target bonuses, and marginal ones should receive at best below-average awards. Use what you save on the marginal employees to supplement the outstanding employees. A study of CEOs of Standard & Poor's

1500 companies for one 3-year period found that 57% of the CEOs received pay increases, although company performance (in terms of total shareholder return) did not improve.⁹⁰

One question is whether to give managers bonuses based on individual performance, corporate performance, or both. Firms usually tie top-level executive bonuses mostly to overall corporate results (or divisional results if the executive heads a major division). But as one moves farther down, corporate profits become a less-accurate gauge of a manager's contribution. For supervisors or the heads of functional departments, it often makes more sense to base the bonus more on individual performance.

Many firms end up tying short-term bonuses to both organizational and individual performance. Perhaps the simplest method is the *split-award plan*. This makes the manager eligible for two bonuses, one based on his or her individual effort and one based on the organization's overall performance. Thus, a manager might be eligible for an individual performance bonus of up to \$10,000, but receive only \$2,000 at the end of the year, based on his or her individual performance evaluation. But the person might also receive a second bonus of \$3,000, based on the firm's profits for the year.

One drawback to this approach is that it may give marginal performers too much—for instance, someone could get a company-based bonus, even if his or her own performance is mediocre. One way to avoid this is to use the *multiplier method*. As Table 12-2 illustrates, multiply the person's target bonus by 1.00, 0.80, or zero (if the firm's performance is excellent, and the person's performance is excellent, good, fair, or poor). A manager whose own performance is poor does not even receive the company-based bonus.

LONG TERM INCENTIVES Employers use *long-term incentives* to inject a long-term perspective into their executives' decisions. With only short-term (generally one year) criteria to shoot for, a manager could conceivably boost profitability by reducing plant maintenance, for instance; this tactic might catch up with the company 3 or 4 years later. Popular long-term incentives include cash, stock options, stock, stock appreciation rights, and phantom stock.⁹¹ PepsiCo's CEO was paid \$26.4 million for one year, including a base

TABLE 12-2 Multiplier Approach to Determining Annual Bonus

Individual Performance (Based on Appraisal, Weight = 0.50)	Company Performance (Based on Sales Targets,)			
	Excellent	Good	Fair	Poor
Excellent	1.00	0.90	0.80	0.70
Good	0.80	0.70	0.60	0.50
Fair	0.00	0.00	0.00	0.00
Poor	0.00	0.00	0.00	0.00

Note: To determine the dollar amount of a manager's award, multiply the maximum possible (target) bonus by the appropriate factor in the matrix.

salary of \$1.6 million, stock awards of \$6.25 million and a performance-based cash bonus of \$13.9 million, a \$4.26 million adjustment to her pension, plus perks such as air travel.⁹²

Long-term incentives such as stock options, if well-designed, should only pay off if the firm achieves its strategic goals (such as “double our rate of return”), because the owners and investors should also benefit from the executives’ efforts. Long-term incentives may also be “golden handcuffs,” motivating executives to stay by letting them accumulate capital (usually options to buy company stock) that they can cash in only after a certain period. Again, popular long-term incentives include cash, stock, stock options, stock appreciation rights, and phantom stock.⁹³ We’ll look at each.

stock option

The right to purchase a stated number of shares of a company stock at today’s price at some time in the future.

STOCK OPTIONS A **stock option** is the right to purchase a specific number of shares of company stock at a specific price during a specific period. The executive thus hopes to profit by exercising his or her option to buy the shares in the future but at today’s price. This assumes the stock will go up. Unfortunately, this depends partly on considerations outside the manager’s control.⁹⁴ When stock markets dropped a while ago, many employers including Intel and Google adjusted their option plans to boost the likely payout.⁹⁵ The HR Practices Around the Globe feature addresses one aspect of this.

The chronic problem with stock option plans is that many reward even managers who have lackluster performance, but there are also other problems. Several years ago some executives allegedly lied about the dates they received their options to boost their returns. Options may also encourage executives to take perilous risks in pursuit of higher profits.⁹⁷ One alternative may be to force recipients to convert their options into stock sooner. One paper argues that it’s probably cheaper just to pay cash awards than stock options.⁹⁸

■ IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Until January 2006, China basically prohibited publicly listed companies from offering stock incentive plans to their managers.⁹⁶ At that point better economic conditions and an evolving political philosophy led to new regulations. Soon 42 Chinese-listed companies were permitting such plans.

A study focused on those 42 companies. It sought to determine how the new incentive plans affected company performance. To understand the findings it’s important to know that managing in China still has unique characteristics. For example, prior to becoming publicly listed firms, the big firms were usually owned by the government. Furthermore, the government may well continue to retain certain ownership control rights even after the firms go on the stock market. In such cases, the goals of the owners and the management may diverge. For example, government owners might want to maximize employment, rather than profitability. The question is, given such cultural and political realities, do management stock option plans in China translate into improved company performance, as they often do in the United States?

The researchers compared the performance of the 42 Chinese companies that did adopt management stock option plans with a control group of firms without such plans. One thing they found was that the stock option plans did improve firm performance in companies controlled by private shareholders, but not in companies controlled by the government. In the latter, goals such as maximizing employment may have outweighed boosting profits, thus limiting managers’ profit-boosting efforts.

The findings highlight why managing globally is challenging. In this case, a stock option plan that might improve financial performance in the United States might fail in China, where the government owners’ goals may well differ from the desire of managers to boost profits.

OTHER STOCK PLANS Beyond that, the trend is toward tying rewards more explicitly to performance goals. Instead of stock options, more firms are granting various types of performance-based shares. With *performance-contingent restricted stock* the executive receives his or her shares only if he or she meets the preset performance targets.⁹⁹ With (time-based) *restricted stock plans*, the firm usually awards rights to the shares without cost to the executive but the employee is restricted from acquiring (and selling) the shares for, say, five years, and the award may be subject to forfeiture if the recipient ceases to be employed by the company for a set period. Unlike options, the recipient usually pays nothing for the stock. The employer's aim is to retain the employee's services during that time.¹⁰⁰ With *indexed options*, the option's exercise price fluctuates with the performance of, say, a market index. If the company's stock does no better than the index, the manager's options are worthless. With *premium priced options*, the exercise price is higher than the stock's closing price on the date of the grant, so the executive can't profit from them until the stock makes significant gains;¹⁰¹ IBM has used these for years.¹⁰²

Stock appreciation rights (SARs) let the recipient exercise the stock option (by buying the stock) or to take any appreciation in the stock price in cash, stock, or some combination of these. Under *phantom stock plans*, executives receive not shares but "units" that are similar to shares of company stock. Then at some future time, they receive value (usually in cash) equal to the appreciation of the "phantom" stock they own. Both SARs and phantom stock essentially "are bonus plans that grant not stock but rather the right to receive an award based on the value of the company's stock."¹⁰³ A *performance achievement plan* awards shares of stock for the achievement of predetermined financial targets, such as profit or growth in earnings per share. Most employees seem to prefer cash bonuses to either stock options or restricted stocks. Due to differences in employee preferences, when possible, enable each employee to choose whether to receive stock options or restricted stock.¹⁰⁴

POTENTIAL PROBLEMS Two problems plague executive incentives: short termism, and lack of range. Many plans encourage short-term thinking. For example, the manager boosts earnings per share (and his or her short-term bonus) by cutting R&D, which in turn hurts earnings three or four years down the road. Relatedly, tying the incentive to one metric rather than to several can encourage counterproductive behavior. For example, incentivize the manager just for earnings, and he or she could boost earnings by cutting advertising and other costs, which in turn cause future revenues (unmeasured by the bonus plan) to fall.¹⁰⁵

Three experts suggest several solutions. First, use *multiple metrics*, for instance earnings, and revenue growth, and R&D spending.¹⁰⁶

Second, reward performance *relative to competitors*. For example, increasing a company's earnings when its industry grew 10%, isn't as impressive as increasing them 2% when industry sales and earnings fell. Rewarding performance relative to competitors also forces top managers to analyze what their competitors are doing, and how to improve their firm's relative position.

Third, include *nonfinancial targets*. Nonfinancial targets (such as employee engagement, and customer satisfaction) are harder to "game" than financial targets (such as boosting earnings by cutting R&D). Furthermore, nonfinancial measures can and do affect a company's long-term performance.

ETHICS AND INCENTIVES Recently, a truck stop company in the U.S. arranged to pay some managers commissions and bonuses based on how many dollars of diesel fuel trucking firms purchased each month. U.S. Federal prosecutors allege that doing so encouraged the managers to withhold the volume rebates the trucking firms were supposed to get. In one year, for instance, one officer with a base salary of about \$400,000 earned about \$14 million in bonuses and pay.¹⁰⁷

Anyone designing a long-term incentive plan should remember the management truism: “People put their efforts where they know they’ll be rewarded.” The point is that simplistic incentives that focus on just one factor (such as cost-cutting) may encourage managers to ignore other important factors (such as long-term investment). Similarly, in the absence of strong ethical standards, incentives may breed unethical behavior.¹⁰⁸ Examples are depressingly familiar. For example, to paraphrase *Forbes*, one firm’s culture now incentivizes aggressiveness at the expense of doing what’s best for the client. For stock option plan designers, the solution is to include a sufficient array of bonus-able criteria in the incentive plan, while fostering an ethical culture.

Some Other Executive Incentives

Companies offer other executive incentives. Some incentivize executives to stay with the firm. This is especially important when executives might flee because another company is stalking the firm with intentions to buy it. **Golden parachutes** are extraordinary payments (usually a combination of severance pay, accelerated vesting, and other benefits) made to executives in connection with a change in company ownership or control. Former Yahoo CEO Marissa Mayer reportedly received more than \$54 million when Verizon bought Yahoo, and Oracle’s co-presidents would each receive over \$139 million, for instance.¹⁰⁹

Some firms use loans as incentives, for example by guaranteeing large loans to directors and officers to buy company stock.

golden parachute

A payment companies make in connection with a change in ownership or control of a company.

LEARNING OBJECTIVE 12-5

Name and describe the most popular organization-wide incentive plans.

Team and Organization-Wide Incentive Plans

We’ve focused so far on individual employee incentives (such as piecework, commissions, and executive bonuses). Let’s look now at incentives for teams, and for employees company-wide.

How to Design Team Incentives

Firms increasingly rely on teams to manage their work. They therefore need incentive plans that focus teams on performance and encourage teamwork. **Team (or group) incentive plans** pay incentives to the team based on team performance.

The main question here is how to reward the team’s performance, and the wrong choice can be lethal. Levi Strauss switched from an individual to a team incentive plan, one that rewarded the team as a whole for its output. Unfortunately, they ignored the fact that some employees worked harder than others. The slower ones (economists sometimes call them “free riders” because they take a free ride on others’ efforts) were paid the same as the faster ones. The faster ones, no longer individually incentivized, slowed down, production declined, and Levi’s closed its U.S. factories.

Given the potential free rider problem, companies usually incentivize teams in one of three ways: they pay the same incentives to each team

team (or group) incentive plan

A plan in which a production standard is set for a specific work group, and its members are paid incentives if the group exceeds the production standard.

member based on some overall standard, or pay different rates to each member based on performance, or pay different rates to each in some proportion to each team member's base pay.¹¹⁰

Free riders notwithstanding, the usual approach is probably still to tie rewards to some overall standard of group performance, such as "20 labor hours per car." One company established such an overall standard for its work teams. If the firm reached 100% of its goal, the employees would share in about 5% of the improvement (in labor costs saved). The firm divided the resulting bonus pool by the number of employees to compute the value of a "share." If the firm achieved less than 100% of its goal, the bonus pool was less. The results of this plan in terms of focusing teams on the firm's strategic goals were reportedly "extraordinary."¹¹¹ Firms such as Toyota that use team plans rely on employee selection, training, and peer pressure to minimize free riding.

While most employers just use their experience to estimate what the team goal or standard should be ("20 total labor hours per car"), others carefully engineer their production standards. If so, the employer typically bases the team incentive on either the piece rate or standard hour plan. All team members then typically receive the same share of the team's incentive pay. Thus, the team might receive, say, ₹25 for each wheel installed above the industrially engineered "standard" of 10 wheels per hour. Food delivery company, Swiggy rewards its food delivery employees on incentive plan based on number of orders fulfilled and the distance travelled. To balance the effort and difficulty levels, Uber Eats and a few other companies have flexible schemes, which consider peak and off-peak hours and difficulty of the location. However, such schemes are also criticized as unsustainable in the long run.¹¹²

Occasionally, the employer may want to pay team members according to some other formula. For instance, instead of paying each team member based

Team incentives can foster a sense of cooperation and unanimity.



Stuart Jenner / Alamy Stock Photo

on how well the team as a whole does, pay everyone based on how well the *best* team member does. This counter-intuitive option may make sense when an employer has reason to believe the new team incentive plan might demotivate high-performing team members. That's what happened at Levi's.

Team incentives often make sense. They reinforce team problem solving, and can help ensure cooperation. Team incentives also facilitate training, since each member has an interest in getting new members up to speed fast. The main disadvantage is the demotivating effects of free rider workers who share in the team-based pay but who don't put their hearts into it.

Evidence-Based HR: Inequities That Undercut Team Incentives

Although about 85% of large employers reportedly use some type of group- or team-based incentives, studies suggest that team incentives are often counter-productive. Why?

A researcher studied business students enrolled in a graduate online MBA program.¹¹³ She devised a method for categorizing how they said they reacted to the team incentives they'd experienced in the past.

Inequity was the big problem.¹¹⁴ Sometimes all team members' financial compensation was the same, although one or two people "did the lion's share of the work." In other cases, the employer chose one or two team members for promotion, leaving others to feel they'd worked hard to support someone else's career. The bottom line is that unless you take steps to minimize interpersonal inequities, it may be best to pay employees based on their individual contributions, rather than on collective team performance.

Many employers take the team incentive idea to the next level and institute incentive plans in which all or most employees participate. **Organization-wide incentive plans** are plans in which all or most employees can participate, and which generally tie the reward to some measure of company-wide performance. Also called *variable pay plans*, we'll look at them next.

organization-wide incentive plan

Incentive plan in which all or most employees can participate.

profit-sharing plan

A plan whereby employees share in the company's profits.

Profit-Sharing Plans

Profit-sharing plans are plans in which all or most employees receive a share of the firm's annual profits. While that sounds good in theory, free riders may again be a problem: Some may ask, "If everyone gets paid the same whether they work hard or not, why bother?"¹¹⁵

Research is sketchy. Older studies found evidence that profit-sharing plans boost productivity and morale, but that their effect on profits is insignificant, once you factor in the costs of the plans' payouts.¹¹⁶ Another study, in Spain, concluded that profit-sharing plans improve employee commitment.¹¹⁷ A more recent study found that employee earnings rose faster in firms with profit-sharing plans.¹¹⁸

There are several profit-sharing plans. With *current profit-sharing* or cash plans, employees share in a portion of the employer's profits quarterly or annually. Here the firm simply distributes a percentage of profits (usually 15% to 20%) as profit shares to employees at regular intervals. Indian Diamond Cutting and Polishing companies (CPD) are also known for liberal profit-sharing plans for employees. During highly profitable times some of them reward employees with houses, automobiles, etc. The payment is made to coincide with Diwali festival. However, in 2019 due to global slowdown and decreased profitability many CPDs decided against profit sharing.¹¹⁹ For example, Southwest Airlines offers a broad-based (almost everyone is eligible)

profit-sharing plan for employees. Several years ago it distributed a \$228 million profit-sharing payout to employees.¹²⁰

With *deferred profit-sharing* plans, the employer puts cash awards into trust accounts for the employees' retirement.¹²¹ Employees' income taxes on the distributions are deferred until the employee retires or withdraws funds from the plan (thus "deferred profit-sharing plans"). Such plans are essentially pension plans that give the employer the option of deciding each year how much to contribute to the plan.

Scanlon Plans

Few would argue with the idea that one of the best ways of ensuring that employees are engaged and motivated is to ensure that by pursuing his or her goals, the worker pursues the employer's goals as well. Experts have proposed many ways to achieve this. However, few have been as successful as the **Scanlon plan**, developed in 1937 by Joseph Scanlon, a United Steel Workers Union official.¹²² It is still popular today.

The Scanlon plan is remarkably progressive, considering that it is now more than 80 years old. Scanlon plans have five basic features.¹²³ The first is Scanlon's *philosophy of cooperation*. This philosophy assumes that managers and workers must rid themselves of the "us" and "them" attitudes that normally inhibit employees from developing a sense of ownership in the company.

A second feature is what its practitioners call *identity*. This means that in order to focus employee involvement, the company must articulate its mission or purpose, and employees must understand how the business operates in terms of customers, prices, and costs. *Competence* is a third basic feature. The program, say three experts, "explicitly recognizes that a Scanlon plan demands a high level of competence from employees at all levels."¹²⁴ This suggests careful selection and training.

The fourth feature of the plan is the *involvement system*. Employees present improvement suggestions to the appropriate departmental-level committees, which transmit the valuable ones to the executive-level committee. It then decides whether to implement the suggestion.

The fifth element of the plan is the *sharing of benefits formula*. If a suggestion is implemented and successful, all employees usually share in 75% of the savings. For example, assume that the normal monthly ratio of payroll costs to sales is 50%. (Thus, if sales are ₹600,000, payroll costs should be ₹300,000.) Assume the firm implements suggestions that result in payroll costs of ₹250,000 in a month when sales were ₹550,000 and payroll costs therefore should have been ₹275,000 (50% of sales). The savings attributable to these suggestions is ₹25,000 (₹275,000 minus ₹250,000). Workers would typically split 75% of this (₹18,750), while ₹6,250 would go to the firm. In practice, the firm sets aside about one-quarter of the ₹18,750, for months when payroll costs exceed the standard.

Other Gainsharing Plans

The Scanlon plan is one early version of today's **gainsharing plans**. Gainsharing is an incentive plan that engages many or all employees in a common effort to achieve a company's productivity objectives, with any resulting cost-savings gains shared among employees and the company.¹²⁵ In addition

Scanlon plan

An incentive plan developed in 1937 by Joseph Scanlon and designed to encourage cooperation, involvement, and sharing of benefits.

gainsharing plan

An incentive plan that engages employees in a common effort to achieve productivity objectives and share the gains.

earnings-at-risk pay plan

Plan that puts some portion of employees' normal pay at risk if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals.

**employee stock ownership plan (ESOP)**

A corporation contributes shares of its own stock to a trust in which additional contributions are made annually. The trust distributes the stock to employees on retirement or separation from service.

to the Scanlon plan, other popular gainsharing plans include the Lincoln, Rucker, and Improshare plans.

The basic difference among these plans is how employers determine employee bonuses. The Scanlon formula divides payroll expenses by total sales (or, sometimes, by total sales plus increases in inventory). In one version of the *Lincoln incentive system*, first instituted at the Lincoln Electric Company of Ohio, employees work on a guaranteed piecework basis. The company then distributes total annual profits (less taxes, 6% dividends to stockholders, and a reserve) each year among employees based on their merit rating. Most firms customize their gainsharing plans.

Results support gainsharing's effectiveness in settings ranging from automotive parts manufacturers, to hospitals. For example, in one study cost savings achieved by hospital physicians translated into cash payments to the physicians.¹²⁶ The U.S. Department of Health and Human Services approved certain hospital gainsharing plans.

At-Risk Pay Plans

Pay-for-performance plans can support an employer's cost control efforts. Base pay and benefits represent the lion's share of labor costs, and normally neither varies much even when sales plummet.¹²⁷ (Pay cuts adversely affect morale, and if sales fall one year, it's generally hard to cut labor costs without downsizing.) In an **earnings-at-risk pay plan**, employees agree to put some portion (say, 10%) of their normal pay at risk (forego it) if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals. For example, put part of the employees' pay "at risk" by replacing (1) 10% of each worker's wages with (2) a 10% bonus if the company meets its goals plus an additional 3% bonus if it exceeds these goals.

Employee Stock Ownership Plans

Employee stock ownership plans (ESOPs) are company-wide retirement/incentive plans, in which the employer contributes shares of its stock (or cash to be used to purchase such stock) to a trust set up to purchase shares of the firm's stock for employees. The firm generally makes these contributions to the trust annually, in proportion to total employee compensation, up to a limit of 15% of compensation. The trust holds the stock in individual employee accounts. It then distributes the stock to employees upon retirement (or other separation from service), assuming the person has worked long enough to earn ownership of the stock.

ESOPs are popular. The company receives a tax deduction equal to the fair market value of the shares it transfers to the trustee; it can also claim an income tax deduction for dividends paid on ESOP-owned stock.¹²⁸ Employees, as noted, aren't taxed until they receive a distribution from the trust, usually at retirement.

ESOPs can also help shareholders of closely held corporations (for instance, a family owns all the shares of a small regional bank and wants to sell all or some of its shares). They place some of their shares of the bank's stock into the ESOP trust. The banking company compensates them (perhaps by borrowing the money) for the shares they put in the trust, and the family then uses those funds to buy other assets.¹²⁹

Studies suggest that ESOPs correlate with performance, but that it's probably "the cooperative culture that can be fostered by employee ownership

that drives better workplace performance in ESOP firms.”¹³⁰ In any case, the company’s board and management have legal and fiduciary responsibilities for the ESOP fund, and must manage the fund prudently.

BROAD-BASED STOCK OPTIONS Some companies offer “broad-based stock option plans” in which all or most employees can participate. (Definitions of what is “broad-based” range from at least 20% of a company’s employees, to a majority of full-time employees, to a plan “which includes most non-management employees.”)¹³¹ Perhaps because such plans foster a sense of cooperation and ownership (as do ESOPs), at least one study concluded that firms with broad-based stock option plans had higher productivity and annual growth rates than peers.¹³²

However, in the early 2000s, many companies cut back on these. For example, Time Warner, Microsoft, Aetna, and Charles Schwab discontinued distributing stock options to most employees. Some of them, including Microsoft, instead award stock. With current tax laws, companies must show the options as an expense when awarded, reducing their attractiveness as a “costless” reward. Microsoft and others apparently feel awarding stock instead of stock options is a more direct and immediate way to link pay to performance.¹³³

Incentive Plans in Practice: Nucor

Nucor Corp. is the largest steel producer in the United States. It also has the highest productivity and lowest labor cost per ton, consistently ranks as a “Best Places to Work,” and hasn’t had layoffs in decades.¹³⁴ Employees can earn bonuses of 100% or more of base salary, and all participate in one of four performance-based incentive plans. With the *production incentive plan*, operating and maintenance employees and supervisors get weekly bonuses based on their work groups’ productivity. The *department manager incentive plan* pays department managers annual incentive bonuses based mostly on the ratio of net income to dollars of assets employed for their division. With the *professional and clerical bonus plan*, employees not in one of the two previous plans get bonuses based on their divisions’ net income return on assets.¹³⁵ Finally, under the *senior officer incentive plan*, Nucor senior managers (whose base salaries are lower than those comparable firms) get bonuses based on Nucor’s annual overall percentage of net income to stockholders equity.¹³⁶ In one recent year Nucor’s CEO earned a total of \$10.6 million, including \$2.9 million in stock awards, \$4 million in stock options, and \$2.4 million in incentive plan awards tied to return on equity and Nucor’s position in its sales comparison group.¹³⁷

Nucor also divides 10% of its operating profits yearly among all employees (except senior officers). Depending on company performance, this may be from 1% to over 20% of an employee’s pay.

LEARNING OBJECTIVE 12-6

Explain how to use incentives to improve employee engagement.

Employee Engagement Guide for Managers

Incentives and Engagement

A survey provides some insights into the role of incentive pay in fostering employee engagement. Of approximately 6,300 compensation professionals the researchers solicited, 736 responded to the survey.¹³⁸ Here’s what the researchers found.

First, although the compensation professionals believed that total rewards programs can influence employee engagement, many of these professionals did *not* specifically include employee engagement as one of the goals of their compensation plans. About 60% agreed or strongly agreed that “employee engagement and performance metrics are incorporated into variable pay programs in our organization.” But only 37% agreed or strongly agreed that “in the organization, engagement levels fostered by line managers are important factor in evaluating performance.”

Second, they concluded that the most direct ways to encourage employee engagement with incentives are (1) to measure the extent to which *supervisors are encouraging their subordinates to be engaged*, and (2) to *use incentives to reward supervisors for improving employee engagement*.

Third, even more important than the rewards themselves, getting employees involved in developing the rewards programs was the “gold standard” for building employee cooperation and commitment. An Indian study of employee engagement and rewards conducted among corporate and non-corporate employees showed compensation and incentive as critical areas, along with career and developmental opportunities for employee development.¹³⁹ The Indian diamond cutting and polishing industry is known for enhancing employee motivation and loyalty by giving liberal incentives.¹⁴⁰

So, in brief: Make improving employee engagement a formal target of your compensation plan; appraise and incentivize your supervisors partly based on whether they take steps to improve their subordinates’ engagement; and if possible get employee input in devising the incentive plan.

Chapter Review

Chapter Section Summaries

12-1. In designing an effective financial incentive plan, it’s important to understand the relationship between **money and motivation**. Herzberg said the best way to motivate someone is to organize the job so that it provides the feedback and challenge that help satisfy the person’s higher-level needs. Deci found that extrinsic rewards may actually detract from a person’s intrinsic motivation. Vroom’s expectancy motivation theory says a person’s motivation depends on expectancy, instrumentality, and valence. Skinner’s behavior modification-based approach means changing behavior through rewards or punishments that are contingent on performance.

12-2. Piecework is an **individual employee incentives and recognition program** incentive plan in which a person is paid a sum for each item he or she makes. Merit pay is a salary increase awarded based on individual performance. Nonfinancial and recognition-based awards

include awards in the form of employee recognition, gift certificates, and individual travel. Many employers use enterprise incentive management systems to automate the planning, analysis, and management of their incentive plans.

12-3. **Incentives for salespeople** are typically sales commissions. Although the percentage of pay in the form of sales commission may vary, a survey found that salespeople at high-performing companies receive about 38% of their total cash compensation in sales-related variable pay.

12-4. Managers take many things into consideration when formulating **incentives for managers and executives**. Most firms have annual bonus plans aimed at motivating managers’ short-term performance. The actual award often depends on some combination of individual performance and organizational performance, so that, for instance, high-performing

managers get a bonus even if the company itself underperforms. Long-term incentives include stock options, “golden parachutes,” and stock appreciation rights.

- 12-5. With more employers organizing their efforts around teams, **team and organization-wide incentive plans are more important**. With team incentives, the main question is whether to reward members based on individual or team performance; both have pros and cons. Organization-wide incentive plans are plans in which all or most employees can participate. These include profit-sharing plans in which employees share in the company’s profits;

gainsharing plans, including the Scanlon plan, engage employees in a common effort to achieve productivity objectives and thereby share the gains. With employee stock ownership plans the employer contributes shares of its own stock to a trust established to purchase shares of the firm’s stock for employees.

- 12-6. Consciously make **employee engagement** a goal of your compensation plan; appraise and incentivize supervisors partly based on their effectiveness in improving their subordinates’ engagement; and if possible enable employees to participate in devising the compensation plan.

Discussion Questions

- 12-1. Compare and contrast six types of incentive plans.
- 12-2. Explain five reasons why incentive plans fail.
- 12-3. Describe the nature of some important management incentives.
- 12-4. You are applying for a job as a manager and are at the point of negotiating salary and incentives. What questions would you ask your prospective employer concerning incentives? Describe the incentives package you would try to negotiate for yourself.
- 12-5. In this chapter, we listed a number of guidelines for instituting a pay-for-performance plan. Do you think these points make sense in terms of motivation theory? Why or why not?
- 12-6. What is merit pay? Do you think it’s a good idea to award employees merit raises? Why or why not?
- 12-7. Give four examples of when you would suggest using team or group incentive programs rather than individual incentive programs.

Individual and Group Activities

- 12-8. Working individually or in groups, create an incentive plan for the following positions: chemical engineer, plant manager, used-car salesperson. What factors did you have to consider in reaching your conclusions?
- 12-9. A state university system in the Southeast U.S. instituted a “Teacher Incentive Program” (TIP) for its faculty. Faculty committees within each of the university’s colleges were told to award \$5,000 raises (not bonuses) to about 40% of their faculty members based on how good a job they did teaching undergraduates, and how many courses they taught per year. What are the potential advantages and pitfalls of such an incentive program? How well do you think it was accepted by the faculty? Do you think it had the desired effect?
- 12-10. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone



studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team’s questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

Experiential Exercise

Motivating the Employees at Pearson Urgent Care

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice developing an incentive plan.

Required Understanding: Be thoroughly familiar with this chapter, and read the following:

Pearson Urgent Care is a chain of walk in medical urgent care centers in New York City. Each walk in center has about 12 full time employees; Pearson's total number of employees is therefore about 75, including the walk in center employees and central office accountants, clerks, and managers. Pearson is run by Taylor Pearson MD. Her main business problem now is that online Yelp-type walk in center reviews are abysmal. Common customer complaints include:

- Front desk clerks who greet patients and obtain their medical history forms seem unfriendly and unhelpful.
- Nurses who take the patients to the examining rooms and review their medical histories seem uncaring.

- Doctors seem rushed and unwilling to explain in detail what the patient's problem is or how to deal with it.
- X-ray technicians seem rushed.

Table 12-3 summarizes Pearson's walk in center compensation plan. As you can see, Pearson currently pays all its walk in center team members based on wages or salaries.

How to Set Up the Exercise/Instructions: Divide the class into groups of several students. One or more groups should analyze each of the four teams in Table 12-3's first column. Each student group should analyze the compensation package for its Pearson team, and answer these questions:

- 12-12. In what ways might the current compensation method contribute to the customer service problems?
- 12-13. What recommendations would you make to improve the compensation system in a way that would likely improve customer satisfaction?

TABLE 12-3 Pearson Urgent Care Teams and Pay

Pearson Urgent Care Team	Main Responsibility of Team	Main Current Compensation Method
1. Front desk	Greet patients, process health forms.	Hourly wage.
2. Nurses	Complete patients' medical history.	Annual salary.
3. Doctors	Diagnose patients, provide prescriptions.	Annual salary.
4. X-ray technicians	Take prescribed x-rays.	Hourly wage.

Application Case

The HubSpot.com Sales Incentive Plan

Written and copyrighted by Gary Dessler, PhD.

Two graduates of MIT's Sloan School of Management founded HubSpot.com about 12 years ago.¹⁴¹ HubSpot provides special customer relationship management (and other) software and systems aimed at helping clients use online content to attract potential customers to their Web sites, something known as "inbound" marketing.¹⁴²

When the founders started HubSpot, their sales challenge was straightforward. At that point, the company only had about 100 customers, so they had to acquire as many customers as they could, as quickly as possible. Therefore, they focused their first sales compensation plan on what that plan's architect refers to as "hunting" for new customers. That first plan gave HubSpot salespeople a base salary, plus \$2 dollars up front for every \$1 of monthly recurring revenue they brought in from clients. Knowing that some clients might well leave, the sales compensation

plan included a four-month claw back clause. In other words, if a client left for any reason within the first four months, HubSpot took back that entire commission from the salesperson. It was a straightforward sales compensation plan, and in less than six months HubSpot zoomed from 100 to 1000 customers, and its revenues jumped from \$300,000 to \$3 million. So far so good.

However, a problem soon became apparent. HubSpot had a big client retention problem. Way too many clients were dropping the service (mostly after four months). HubSpot's usual procedure was to assign each new client to a postsale consultant. That consultant was responsible for setting up the new client's service, and training its staff in how to use HubSpot software and services. Management first assumed that some postsale consultants were doing something to turn their clients off, and that that accounted for the client churn. But after analyzing client retention rates, it was apparent that the postsale consultants were not the problem: client churn for all postsale consultants was about the same.

Management therefore turned to analyzing client churn among salespeople, and there they found the problem. Some

salespeople had more than 10 times the client churn than others! For some reason, some salespeople's clients remained long-term customers, while others left in droves. Some salespeople were doing a better job than others, in terms of the types of customers they focused on and what they told their clients HubSpot could accomplish for them.

Management believed that modifying the sales compensation plan was the way to solve the problem. The question was, what exactly should the new sales compensation plan look like?

Questions

- 12-14.** How exactly would you change the HubSpot sales compensation plan to solve this client retention problem? Please be specific about what your new plan would consist of.
- 12-15.** Management defined the client churn problem as a sales problem, to be solved with a modified sales compensation plan. What else could have caused the client churn problem, and how would you have solved that?

Continuing Case

Carter Cleaning Company

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The Incentive Plan

The question of whether to pay Carter Cleaning Center employees an hourly wage or an incentive of some kind has always intrigued Jack Carter.

His basic policy has been to pay employees an hourly wage, except that his managers do receive an end-of-year bonus depending, as Jack puts it, "on whether their stores do well or not that year."

However, he is considering using an incentive plan in one store. Jack knows that a presser should press about 25 "tops" (jackets, dresses, blouses) per hour. Most of his pressers do not attain this ideal standard, though. In one instance, a presser named Walt was paid \$8 per hour, and Jack noticed that regardless of the amount of work he had to do, Walt always ended up going home at about 3:00 P.M., so he earned about \$300 at the end of the week. If it was a holiday week, for instance, and there were a lot of clothes to press, he might average 22 to 23 tops per hour (someone else did pants) and so he'd earn perhaps \$300 and still finish each day in time to leave by 3:00 P.M. so he could pick up his children at school. But when things were very slow in the store, his productivity would drop to perhaps 12 to 15 pieces an hour, so that at the end of the week he'd end up earning perhaps \$280, and in fact not go home much earlier than he did when it was busy.

Jack spoke with Walt several times, and while Walt always promised to try to do better, it gradually became apparent to Jack that Walt was simply going to earn his \$300 per week no matter

what. Though Walt never told him so directly, it dawned on Jack that Walt had a family to support and was not about to earn less than his "target" wage, regardless of how busy or slow the store was. The problem was that the longer Walt kept pressing each day, the longer the steam boilers and compressors had to be kept on to power his machines, and the fuel charges alone ran close to \$6 per hour. Jack clearly needed some way short of firing Walt to solve the problem, because the fuel bills were eating up his profits.

His solution was to tell Walt that, instead of an hourly \$8 wage, he would henceforth pay him \$0.33 per item pressed. That way, said Jack to himself, if Walt presses 25 items per hour at \$0.33 he will in effect get a small raise. He'll get more items pressed per hour and will therefore be able to shut the machines down earlier.

On the whole, the experiment worked well. Walt generally presses 25 to 35 pieces per hour now. He gets to leave earlier and, with the small increase in pay, he generally earns his target wage. Two problems have arisen, though. The quality of Walt's work has dipped a bit, plus his manager has to spend a minute or two each hour counting the number of pieces Walt pressed that hour. Otherwise, Jack is fairly pleased with the results of his incentive plan, and he's wondering whether to extend it to other employees and other stores.

Questions

- 12-16.** Should this plan be extended to pressers in the other stores?
- 12-17.** Should other employees (cleaner/spotters, counter people) be put on a similar plan? Why or why not? If so, how, exactly?

- 12-18. Is there another incentive plan you think would work better for the pressers? Describe it.
- 12-19. A store manager's job is to keep total wages to no more than 30% of sales and to maintain the fuel bill and the supply bill at about 9% of sales each. Managers can

also directly affect sales by ensuring courteous customer service and by ensuring that the work is done properly. What suggestions would you make to Jennifer and her father for an incentive plan for store managers or front-desk clerks?

Translating Strategy into HR Policies and Practices Case[§]

Improving Performance at the Hotel Paris

The New Incentive Plan

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

One of Lisa Cruz's biggest pay-related concerns is that the Hotel Paris compensation plan does not link pay to performance in any effective way. Because salaries were historically barely competitive, supervisors tended to award merit raises across the board. So, employees who performed well got only about the same raises as did those who performed poorly. Similarly, there was no bonus or incentive plan of any kind aimed at linking employee performance to strategically relevant employee capabilities and behaviors such as greeting guests in a friendly manner or providing expeditious check-ins and check-outs. The bottom line for Lisa and the CFO was that the company's financial rewards system—potentially, the single-biggest tool they had for channeling employee performance toward accomplishing the Hotel Paris's goals—was totally inadequate. She and her team thus turned to the job of deciding what sort of incentive-based reward systems to install.

Based on their analysis, Lisa Cruz and the CFO concluded that, by any metric, their company's incentive plan had to be changed. The percentage of the workforce whose merit increase or incentive pay was tied to performance was effectively zero, because managers awarded merit pay across the board. No more than 5% of the workforce (just the managers) was eligible for incentive pay. And, the percentage difference in incentive pay between a low-performing and a high-performing employee was less than 2%. Lisa knew from industry studies that in top firms, over 80% of the workforce had merit pay or incentive pay tied to performance. She also knew that in high-performing firms, there was at least a 5% or 6% difference in incentive pay between a low-performing and a high-performing employee. The CFO authorized Lisa to design a new strategy-oriented incentive plan for the Hotel Paris's employees. Their overall aim was to incentivize the pay plans of just about all the company's employees.

Lisa and the company's CFO laid out three measurable criteria that the new incentive plan had to meet. First, at least 90%

(and preferably all) of the Hotel Paris's employees must be eligible for a merit increase or incentive pay that is tied to performance. Second, there must be at least a 10% difference in incentive pay between a low-performing and high-performing employee. Third, the new incentive plan had to include specific bonuses and evaluative mechanisms that linked employee behaviors in each job category with strategically relevant employee capabilities and behaviors. For example, front-desk clerks were to be rewarded in part based on the friendliness and speed of their check-ins and check-outs, and the housecleaning crew was to be evaluated and rewarded in part based on the percentage of room cleaning infractions.

With these criteria in mind, Lisa and her team turned to designing the new merit and incentive pay plan. They created a larger merit pay pool, and instructed supervisors that employees scoring in the lower 10% of performance were to receive no merit pay, while the difference in merit pay between the top category and medium category employees was to be 10%. They contracted with an online employee recognition firm and instituted a new "Hotel Paris instantaneous thank-you award program." Under this program, any guest or any supervisor could recommend any hotel employee for an instantaneous recognition award; if approved by the department manager, the employee could choose the recognition award by going to the company's Web site. The incentive structure for all the company's managers, including hotel managers, assistant managers, and departmental managers, now ties at least 10% of each manager's annual pay to the degree to which his or her hotel achieves its strategic aims. The plan measures this in terms of ratings on the guest satisfaction index, average length of guest stay, and frequency of guest returns. Ratings on all these metrics soon began to rise.

Questions

- 12-20. Discuss what you think of the measurable criteria that Lisa and the CFO set for their new incentive plan.
- 12-21. Given what you know about the Hotel Paris's strategic goals, list three or four specific behaviors you would incentivize for each of the following groups of employees: front-desk clerks, hotel managers, valets, housekeepers.
- 12-22. Based on what you learned in this chapter of Dessler *Human Resource Management*, lay out a complete incentive plan (including all long- and short-term incentives) for the Hotel Paris's hotel managers..

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 fair day's work, 441
 scientific management
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138. This is based on Dow Scott and Tom McMullen, "The Impact of Rewards Programs on Employee Engagement," *WorldatWork*, June 2010.
139. Tejvir Singh, Pankaj Kumar, and Pushpendra Priyadarsi, "Employee Engagement: A Comparative Study of Selected Indian Organizations," *International Journal of Management Practices and Contemporary Thoughts*.
140. . Biju Varkkey and Randhir Kumar, "Keeping the Sparkle On," *International Journal of Organizational Analysis*, 2015.
141. www.hubspot.com, accessed March 24, 2018.
142. This is based on Mark Roberge, "The Right Way to Use Compensation," *Harvard Business Review*, April 2015, <https://hbr.org>, accessed March 23, 2018.



Pavel Kapysh, shutterstock.com

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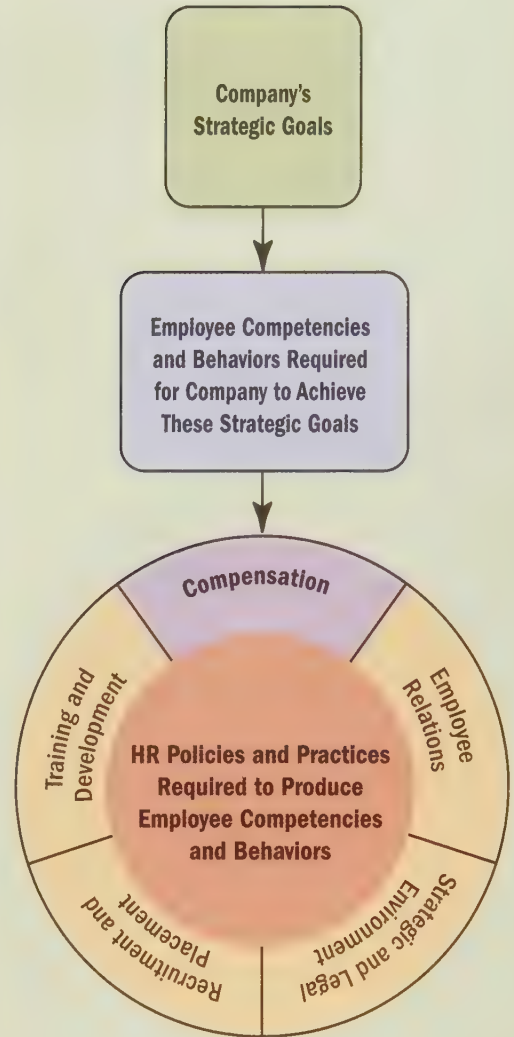
Benefits and Services

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 13-1** **Name and define** each of the main pay for time not worked benefits.
- 13-2** **Describe** each of the main social security/insurance benefits.
- 13-3** **Discuss** the main retirement benefits.
- 13-4** **Outline** the main employees' services benefits.
- 13-5** **Explain** the main flexible benefit programs.
- 13-6** **Explain** how to use benefits to improve engagement, productivity, and performance.

In 1983, three youngsters laid the foundation of Blue Dart, which is currently the largest express courier company in South Asia. In 2004, DHL invested in the company and has controlling interest. The company emphasizes on customer service but also recognizes the value of engaged employees. While the courier industry is highly people-intensive and experiences high employee turnover, Blue Dart could manage to control it. Many of its current managers joined the company as courier delivery persons. Apart from a caring culture, employee benefits played an important part in its success. We will see what Blue Dart management did.¹



WHERE ARE WE NOW . . .

Chapters 11 and 12 addressed salaries (and wages) and incentives. The main purpose of this chapter is to explain the third major pay component: employee benefits. The main topics we discuss are **Pay for Time Not Worked Benefits, Insurance Benefits, Retirement Benefits, Employees' Services Benefits, Flexible Benefits, and Employee Engagement Guide for Managers.**

This chapter completes our discussion of employee compensation.

The next chapter starts a new part of this book, and focuses on managing employee relations.

Introduction: The Benefits Picture Today

benefits

Indirect financial and nonfinancial payments employees receive for continuing their employment with the company.

“What are your benefits?” is the first thing many applicants ask. **Benefits**—indirect financial and nonfinancial payments employees receive for their employment with the company and which employers use to attract, recognize, and retain workers—are an important part of just about everyone’s compensation.² They include things like health and life insurance, pensions, paid time off, and child-care assistance. In the Indian context, benefits can be classified into two parts: (1) mandatory benefits covering Provident Fund, NPS, ESI Scheme, Gratuity, Leave/Vacation Travel, and Employee Compensation, and (2) non-mandatory or voluntary benefits (which are provided by an employer). The second category generally includes additional/top-up health insurance, life insurance policies, accident insurances, and personal loans. Many Indian firms also provide employee discount on products, etc. Employee benefits account for about 37% of wages and salaries (or about 30% of total payrolls). Figure 13-1 summarizes the breakdown of benefits as a percentage of employee compensation in the U.S. context.

For most employees, *health benefits* are the gorilla of the benefits package. In one recent survey, benefits that people said they coveted most were health, dental, and vision benefits (88%), more flexible hours (88%), more vacation time (80%), and more work from home options (80%).³ Even human resource managers can underestimate benefits’ attractiveness. One survey concluded that many human resource managers erroneously assume that things like job security and autonomy are more important than benefits.⁴ They aren’t. A survey in India found that Indian employees are not just looking at standard salary but for benefits that are conducive high performance, including individual wellness and health. In giving benefits, Indian companies perceive challenges in keeping with competition, hiring and retention of talent, and collecting employee feedback about current benefits.⁵ Even human resource managers sometimes underestimate benefits’ attractiveness. The above study also identified communication of benefits as a challenge for Indian companies. One survey concluded that many human resource managers erroneously assume that things like job security, autonomy and independence are more important to employees than benefits.⁶

Policy Issues

Employers therefore should design benefits packages carefully, and there are many policy decisions to make. These include what benefits to offer, who receives coverage, whether to include retirees in the plan, whether to deny benefits to employees during initial “probationary” periods, how to finance benefits, cost-containment procedures, and how to communicate benefits options to employees.⁷

Legal issues loom large. Labor laws and Union Agreements *mandate* some benefits (such as Social Security including Provident Fund and Gratuity payments), while other benefits are *voluntary* (at the employer’s discretion, e.g., Mobile phone ownership, insurance coverage for relatives like parents and in-laws, dating allowances); see Table 13-1 (page 422). However, law still affects even voluntary/discretionary benefits such as vacation leave. For example, leave and leave encasement (payment in-lieu of unused leave) and Leave Travel Concession in India are regulated by government regulations and Income Tax rules. And employers must adhere to the laws of the states in which they do business. For example, Indian Law requires contractors to provide social security, including insurance benefits for employees.

There are many benefits and ways to classify them. We will classify them as (1) pay for time not worked (such as vacations), (2) insurance benefits, (3) retirement benefits, (4) personal services benefits, and (5) flexible benefits. We will start our discussion with pay for time not worked.

HR in Action at the Hotel Paris As they reviewed the benefits figures, Lisa Cruz and the CFO became increasingly concerned. They computed several benefits-related metrics for their firm, including *benefits costs as a percentage of payroll* and *sick days per full-time equivalent employee per year*. The results were not what they should have been. They had to change their benefits plan. To see how they handled this, read the case on pages 503–504.

FIGURE 13-1 Relative Importance of Employer Costs for Employee Compensation in U.S. (Private Industry), December 2017

Source: Based on Employer Costs for Employee Compensation—December 2017. <http://www.bls.gov/news.release/pdf/eccec.pdf> accessed March 30, 2018.

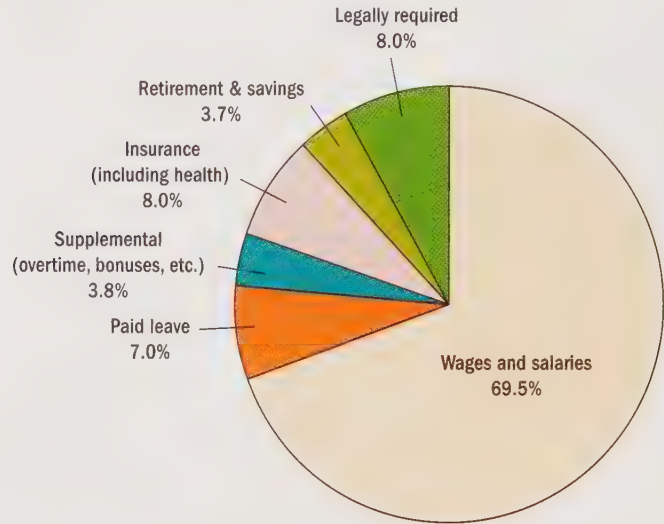


TABLE 13-1 Some Required and Discretionary Benefits

Benefits Required by Central or State Laws (applicable only to covered employees)	Benefits Discretionary on Part of Employer*
Social Security [Provident Fund/NPS, Gratuity, Health Plans/Insurance - ESIC or Central Government Health Scheme (CGHS), etc.]	Additionally disability, health, and life insurance
Medical facilities and hospital facilities under ESIC or CGHS	Pensions under private or top-up schemes.
Workers' compensation for accidents/injury, etc.; death benefit, compassionate appointment for relatives in government/PSUs	Medical care and insurance support for retired/former employees.
Leaves under Maternity Benefit Act; Paternity leave for government/PSUs; Overtime pay as per law	Paid time off for vacations, holidays, sick leave, personal leave, jury duty, etc.
	Employee assistance and counseling programs; "family-friendly" benefits for child care, elder care, flexible work schedules, etc.; executive perquisites
	Educational support for self, support for children's education including tuition fee reimbursement
	Company Housing, Leasing of houses, Provision for self-lease of accommodation, Housing loans, payment of full or part of interest on loans.
	Compensatory off days, encashment of unused accumulated leaves.
	Special leaves for occasions, like parent teachers meetings in schools, anniversaries, and leave for women during periods.

Note: *Although not required under law, these benefits are regulated in some way by law including Income Tax, as explained in this chapter.



LEARNING OBJECTIVE 13-1

Name and define each of the main pay for time not worked benefits.

supplemental pay benefits

Benefits for time not worked such as unemployment insurance, vacation and holiday pay, and sick pay.

unemployment insurance (or compensation)

Provides benefits if a person is unable to work through some fault other than his or her own.

Pay for Time Not Worked

Pay for time not worked—also called **supplemental pay benefits**—is very costly, because of how much time off most employees receive. Common time-off-with-pay benefits include holidays, vacations, jury duty, funeral leave, military duty (in case employee has volunteered in the Territorial Army of India), personal days, sick leave, sabbatical leave, maternity leave, and in some cases, unemployment insurance type payments for laid-off employees.

Unemployment Insurance

Many countries like U.S. have their own **unemployment insurance (or compensation)** laws. These provide benefits to eligible workers who become unemployed through no fault of their own. In U.S., the benefits derive from a tax on employers that can range from 0.1% to 5% of taxable payroll in most states. An employer's unemployment tax rate reflects its rate of employee terminations. Unemployment tax rates are rising in many U.S. states. In India, the situation is different. Employee State Insurance Corporation (ESIC) provides unemployment insurance to insured persons (IP). ESIC has introduced the Atal Bhimit Vyakti Kalyan Yojana which mandates a once in a life-time payment of up to 90 days, to unemployed workers who are registered for more than two years. The Rajiv Gandhi Sharmik Kalyan affected by events like closure of factory/establishment, retrenchment (both under the provisions of Industrial Disputes Act, 1947), or permanent invalidity. The IP should have been registered for three or more years, and the allowance will be equivalent to 50% of wages for two years. Such IPs receive financial support for skill upgradation, and they can avail medical care for themselves and families.⁸ There is also news that the government of India is considering a national unemployment support scheme for the benefit of poor and unemployed.⁹ Already, a few states like Kerala have introduced unemployment pay system for the unemployed. Firms aren't required to let everyone they dismiss receive unemployment benefits only those released through no fault of their own. Thus, strictly speaking, a worker fired for chronic lateness can't legitimately claim benefits. But many managers are lackadaisical in protecting their employers and eventually end up paying compensation or even reinstating the dismissed employee.

The main rule is to keep a list of written warnings to demonstrate that poor performance caused the dismissal.

Vacations and Holidays

Most firms offer vacation and holiday benefits. In India, under the Factories Act of 1948, adult workers who worked for 240 days in a year are eligible for one-day earned leave (or leave with wages) equal to one day for every 20 days worked (Section 79). This implies that almost 4 weeks of leaves with wages. Many Indian firms provide 21 days to 30 days of annual paid leave to full-time employees, also termed as earned leaves. In the U.S. about 90% of full-time workers and 40% of part-timers get paid holidays, an average of eight paid holidays off.¹⁰ Common Indian paid holidays include Republic Day, Independence Day, May Day, Gandhi Jayanti Day and festivals like Holi, Diwali, Dussera, Bakr-Id, Christmas Day.¹¹ On average, American workers get about 9 days of vacation leave after 1 year's employment, 14 days after 5 years, and 17 after 10 years.¹²

Compared to western countries, Indian employees get more annual holidays. The National and Festival holidays have to be observed in India. These are January 26 (Republic Day), August 15 (Independence Day), and October 2 (Gandhi Jayanti). Apart from these, employees are eligible for holidays according to the calendar decided by the government. The total number of holidays varies between states because of regional events. Some firms give some additional holiday on special days like their foundation day. For government employees, 14 days are declared as holidays.

TABLE 13-2 List of Indian Holidays during Year 2020 for Central Government.

Sr.no	Holiday	Date	Day
1.	Republic Day	January 26	Sunday
2.	Holi	March 10	Tuesday
3.	Ram Navami	April 02	Thursday
4.	Mahavir Jayanti	April 06	Monday
5.	Good Friday	April 10	Friday
6.	Budha Purnima	May 07	Thursday
7.	Id-ul-Fitr*	May 25	Monday
8.	Id-ul-Zuha (Bakra Eid) *	August 01	Saturday
9.	Janmashtami	August 12	Wednesday
10.	Independence Day	August 15	Saturday
11.	Muharram*	August 30	Sunday
12.	Gandhi Jayanti	October 02	Friday
13.	Dussehra	October 25	Sunday
14.	Milad-un-Nabi (Birthday of Prophet Mohammad)*	October 30	Friday
15.	Diwali (Deepavali)	November 14	Saturday
16.	Guru Nanak's Birthday	November 30	Monday
17.	Christmas	December 25	Friday

Note: indicates dates can get changed depending upon the moon

In addition, depending on regional and religious events, three more days are allowed every year as restricted holidays. Employees who work during holidays are eligible for double wages or, in some cases, a compensatory off. Firms should address several holiday and vacation-related policy issues, such as how many vacation days employees get, and which days (if any) are paid holidays. Other vacation policy decisions include: Are employees paid for accrued vacation time if they quit before taking their vacations? Will you pay employees for a holiday if they don't come to work the day before and the day after the holiday? And, should we pay some premium—such as time and a half—when employees must work on holidays?

In practice, vacation policies range from highly flexible, to traditional, to restrictive. Some employers have “unlimited vacation policies.” One motive here is that with many workers answering e-mails 24/7, going home doesn't mean leaving work, so they deserve flexible vacations.¹³ Such plans also aid recruiting. Of course, unlimited vacation plans aren't really unlimited. While theoretically there's no limit on how many days off employees can take, in practice they must plan their schedules with their supervisors. When one company switched to such

a plan, the average vacation days rose from 14 to 16.6, year-over-year. As a rule, very few employees actually take more time off.¹⁴ Blackrock recently became the first big financial firm to introduce such a plan.¹⁵

Other employers take a traditional approach: employees are eligible for a certain number of annual vacation days (for instance all IBM employees get at least 3 weeks, and after 10 years get 4 weeks),¹⁶ and place requests for vacations with their supervisors and perhaps their HR departments. Indian IT companies, TCS and Infosys, have introduced a new category of leave, titled bereavement leave, that allows employees to take paid off in case of loss of a near relative.¹⁷ Microsoft India introduced the concept of paid caregiver leaves of four weeks for employees who are caring for family members.¹⁸ Employees sometimes just make informal arrangements with supervisors.¹⁹ Wage surveys provide typical vacation policies, which employers then usually describe in their employee manuals. Pay-Check India provides the required information in the Indian context.

Some employers, concerned with excessive absence, emphasize restrictive, centralized absence oversight (called “integrated absence management”). This starts with collecting data. For instance, how many people are on leave; how many days of work is the employer losing; how much is the employer spending to replace absent workers; and what units have the attendance problems?²⁰ These employers then closely monitor all aspects of their employees’ leaves and absences.



KNOW YOUR EMPLOYMENT LAW

Some Legal Aspects of Vacations and Holidays

Although Indian law doesn’t require vacation benefits, the employer type (government or private), industry type, and company’s HR policies and agreements with unions decide on the number and kind of vacations. Legally, the Factories Act of 1948 and Shops and Commercial Establishments Act have provisions for earned leave, which is akin to vacations. However, teachers of schools and universities can avail vacations in sync with student calendars. As an example, many employers’ vacation policies say vacation pay accrues, say on a biweekly basis. By doing so, these employers obligate themselves to pay new employees pro-rata vacation pay if they leave the firm during their first year. But if the employer’s vacation policy requires that a new employee pass his or her first employment anniversary before becoming entitled to a vacation, the employee gets no vacation pay if he or she leaves during first year.

Another question is whether the employer can cancel an employee’s scheduled vacation, for instance, due to a rush of orders. It should be noted here that while the employee is eligible for vacation leaves as a matter of right, it can be availed only with prior permission. Here it’s important that it formulate its vacation policy so it’s clear that the employer reserves the right to require vacation cancellation and rescheduling if production so demands. ■

Sick Leave

Sick leave provides pay to employees when they’re out of work due to illness. Most policies grant full pay for a specified number of sick days—perhaps 12 or 15 per year (normal in Indian government and PSUs), per year, usually accumulating at the rate of, say, 1 day per month of service. Different Indian states declare sick leave under the Shops and Commercial Establishment Act.²¹ In U.S. six states and several cities now have mandatory paid leave sick laws.²²

sick leave

Provides pay to an employee when he or she is out of work because of illness.

The problem with sick days is that many employees use them whether they're sick or not. Many employers complain that Indian blue-collar labor and migrant workers report sick as a way to get paid leave during festivals and harvest seasons. In one survey in U.S., personal illnesses accounted for about 45% of unscheduled sick leave absences. Family issues (27%), personal needs (13%), and "entitlement" (9%) were other reasons cited.²³ Absenteeism costs U.S. employers about 20% of their total payrolls²⁴ and similar high cost for Indian employers also, with personal illness accounting for about a third of the absences.²⁵

COST-REDUCTION TACTICS Employers use several tactics to reduce excessive sick leave absence. About 87% of U.S. employers use *pooled paid leave plans* (or "banks"). These lump together sick leave, vacation, and personal days into a single leave pool. In one SHRM survey, the average days awarded depended on the employee's time with the employer, and ranged from 13 to 26.²⁶ (Special absences like serious short-term illnesses and bereavement leave are usually handled separately.) Most firms don't include federal holidays in their paid time off "banks."²⁷

Another tactic is to repurchase unused sick leave at the end of the year by paying their employees for each unused sick day. The problem is that legitimately sick employees may come to work. Others hold monthly lotteries in which only employees with perfect monthly attendance are eligible for a cash prize. Payment of attendance-based bonus is a common practice in many traditional Indian firms. At Marriott, employees can trade the value of some sick days for other benefits. Indian cutting and polishing of diamonds industry (CPDs) close operations for a few weeks between October and November so that workers can participate in Diwali celebrations along with their family.²⁸ This approach reduces the instances of employee's reporting sick so that they can celebrate the festivals. Others aggressively investigate all absences, calling absent employees at home or demanding medical certification.²⁹ The accompanying Profit Center feature shows how one employer cut costs.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Controlling Sick Leave

Sick leave often gets out of control because employers don't measure it. In one survey, only 57% of employers formally tracked sick days for their exempt employees.³⁰ Three-fourths of the employers couldn't provide an estimate of what sick pay was costing them. Therefore, the employer should first have a system for monitoring sick leaves and for measuring their financial impact.³¹

As an example, when she became director of the United Kingdom's Driver and Vehicle Licensing Agency, the new director knew steps were needed to address its absence rate.³² The rate had peaked at 14 days out per employee in 2005, at a cost of about \$20 million per year (then £10.3 million).

The new director organized a human resource absence initiative.³³ The agency set a goal of reducing absences by 30% by 2010. Agency directors received absence-reduction goals, and their progress was tracked. The agency introduced new policies on special leave, rehabilitation support, and monitoring absentees. They made it easier for employees to swap work shifts, and introduced a guaranteed leave day policy.

By 2010, the sickness absence rate was down to 7.5 days per employee and productivity was up, for multiyear savings of about \$48 million dollars (£24.4 million). ■



KNOW YOUR EMPLOYMENT LAW

Leaves and the Maternity Benefit and Other Laws

Parental leave is an important benefit.

Many employers enrich their parental leave plans to make them more attractive for mothers to return from maternity leave. For example, keep in touch during maternity leave, offer flexible jobs with reduced travel and hours, and offer longer leaves.³⁴ ■

Severance Pay

Many employers provide **severance pay**, a one-time separation payment when terminating an employee. In India, the Industrial Disputes Act, 1947, sets the framework for retrenching employees, by paying retrenchment compensation. Companies employing more than 100 workers have to take prior permission from the authority, before retrenching. Most managers expect employees to give them 1 or 2 weeks' notice if they plan to quit, so severance pay seems appropriate when dismissing an employee. Long notice periods, often 90 days, is a contentious matter in India. Many Indian companies extended notice period to control attrition.³⁵ Reducing litigation from disgruntled former employees is another reason.³⁶ Severance pay also helps reassure employees that they'll receive some financial help if let go, too. In India, separation or termination of workmen/employees is possible under the provisions of the Industrial Disputes Act. The term "retrenchment" is used instead of words like termination or dismissal. (The term lay-off has also a different meaning under Section 25C of the act.) According to Section 2(oo), retrenchment does not cover instances of separation of employee; dismissal of employee as punishment; leaving employment on grounds of VRS; expiry or non-renewal of employment contract; or termination because of ill health.

Lay-off (Section 25F) requires the employer to give one-month notice in writing with reasons for retrenchment. The information, along with reasons, have to be communicated to the government [Section 25F(c)]. Retrenched employees are eligible for retrenchment compensation at the rate of 15 days wages for each completed year's service (continuous). It's calculated from the date of appointment, with 240 days employment counted as one year.

However, if the establishment employs more than 100 workmen, the law is stricter. Under Section 25N, advance permission from the government has to be taken for retrenchment. The government has powers to refuse or allow retrenchment, and the decision has to be taken within 60 days of application. In the absence of any prior agreement between employer and workmen (through unions) about who will be retrenched first, Section 25G specifies that the last person to be employed will be retrenched first. Any deviation has to be justified to the government.

Apart from the Industrial Disputes Act of 1947, the Shops and Commercial Establishment Act (each Indian state has a separate law) also allows termination, with permission of the state government. Under these circumstances, termination is difficult in India, and the above legal clauses illustrate rigidity of the Indian employment system.

GUIDELINES In any event, keep several things in mind when designing severance plans:

- List the situations for which the firm will pay severance, such as layoffs resulting from reorganizations.

- Require signing of a knowing and voluntary waiver/general release prior to remittance of any severance pay, absolving the employer from employment-related liability.
- Reserve the right to terminate or alter the severance policy.
- Make it clear that any continuing severance payments continue until only the stated deadline or until the employee gets a new job, whichever occurs first.
- Remember that, as with all personnel actions, employers must make severance payments, if any, equitably.³⁷

■ IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Severance Pay in France

Although President Emmanuel Macron is working to change it, French labor law is still complex and restrictive, and aimed mostly at protecting employees' rights.³⁸

For example, when one employer refused two employees' requests to be fired, they stopped coming to work. He dismissed them, after which a labor tribunal held they'd been wrongfully terminated. The two former employees ended up getting about \$60,000 each. Proceedings in these tribunals can go on for years.

Understandably, many employers take the easy way out and don't hire employees. Instead, they outsource work or use temps. President Macron wants to put a ceiling on the labor tribunal awards. He hopes that lifting that threat will make employers more willing to hire again. But unions are resisting capping awards, and striking. In any case, managers from other countries should understand French labor law before opening new facilities there.

supplemental unemployment benefits

Provide for a "guaranteed annual income" in certain industries where employers must shut down to change machinery or due to reduced work. These benefits are paid by the company and supplement unemployment benefits.



LEARNING OBJECTIVE 13-2

Describe each of the main social security/insurance benefits.

workers' compensation

Provides income and medical benefits to work-related accident victims or their dependents regardless of fault.

Supplemental Unemployment Benefits

In some industries such as automaking, shutdowns to reduce inventories or change machines are common. **Supplemental unemployment benefits** are cash payments that supplement the employee's unemployment compensation, to help the person maintain his or her standard of living while out of work.

Insurance Benefits

Most employers also provide various required or voluntary insurance benefits, such as workers' compensation and health insurance.

Workers' Compensation

Workers' compensation laws (called the Employees Compensation Law of 1923 India, which was earlier known as the Workmen Compensation Act, 1923) aim to provide sure, prompt income and medical benefits to work-related accident victims or their dependents, regardless of fault.

HOW BENEFITS ARE DETERMINED Workers' compensation can be monetary or medical. In the event of a worker's death or disablement, the person's dependents receive a cash benefit based on prior earnings—usually one-half to two-thirds the worker's average weekly wage, per week of employment. The Employee's Compensation Act also covers certain diseases that workers may contract as a result of the work conditions. Such workers are deemed to have suffered an accident, and have to be compensated. The act also provides methodology for calculating compensation for death and permanent disability. For executives and managers who are outside the purview of this legislation,

companies provide relief through group accident insurance schemes and group health insurance schemes. This is purely discretionary for a company. Hence, in case of failure of employer to cover the employee under accident insurance schemes, the burden will be on the employee, and can be claimed after legal battle with the employer.

For workers' compensation to cover an injury or work-related illness, one must only prove that it arose while the worker was on the job. It doesn't matter that he or she may have been at fault.³⁹ Suppose you instruct employees to wear safety goggles at their machines. One worker doesn't and has an eye injury on the job. The company must still provide workers' compensation benefits.

CONTROLLING WORKERS' COMPENSATION COSTS It is important to control workers' compensation claims (and therefore costs). The employer's insurance company usually pays the claim, but the employer's premiums may rise with more claims.

There are ways to reduce workers' compensation claims. First, new employees are most at risk: inexperienced (less than one year) workers have two to four times the loss costs, for instance.⁴⁰ Competent selection—background checks, testing, and drug testing—plus training are therefore crucial.⁴¹ Also reduce accident-causing conditions, such as slippery floors or sloppy work habits. Check and comply with safety standards laws. Furthermore, some workers' compensation claims are not legitimate. Red flags include vague accident details, minor accidents resulting in major injuries, lack of witnesses, injuries occurring late Friday, and late reporting.⁴²

Case management is popular for cost control. It is “the treatment of injured workers on a case-by-case basis by an assigned manager, usually a [specially trained] registered nurse, who coordinates with the physician and health plan to determine which care settings are the most effective for quality care and cost.”⁴³

Moving aggressively to support the injured employee and to get him or her back to work is important too. The involvement of an attorney and the duration of the claim both influence the worker's claim cost.⁴⁴ Many firms have programs such as physical therapy assistance to help reintegrate claim recipients.

Hospitalization, Health, and Disability Insurance

Health insurance looms large in many people's choice of employer, because it's so expensive.⁴⁵ Hospitalization, health, and disability insurance helps protect employees against hospitalization costs and from the income loss arising from off-the-job accidents or illness. Many employers purchase insurance from life insurance companies. Others contract with health maintenance organizations or preferred provider organizations. The employer and employee usually both contribute to the plan. Many Indian companies also extend insurance benefits to relatives, and retired employees at a nominal additional fee.

COVERAGE Most employer health plans provide at least basic hospitalization and surgical and medical insurance for all eligible employees at group rates. Insurance is generally available to all employees—including new nonprobationary ones—regardless of health or physical condition. Most basic plans pay for hospital room and board, surgery charges, and medical expenses (such as doctors' visits to the hospital). Some also provide “major medical” coverage to meet the medical expenses resulting from serious illnesses.

Most employers' health plans also cover health-related expenses like doctors' visits, eye care, and dental services. Other plans pay for general and diagnostic visits to the doctor's office, vision care, hearing aids, and prescription drugs. *Disability insurance* provides income protection for salary loss due to illness or accident, and may continue until age 65 or beyond. Disability benefits usually range from 50% to 75% of the employee's base pay if he or she is disabled.

health maintenance organization (HMO)

A prepaid health-care system that generally provides routine round-the-clock medical services as well as preventive medicine in a clinic-type arrangement for employees, who pay a nominal fee in addition to the fixed annual fee the employer pays.

HMOs Many employers offer membership in a **health maintenance organization (HMO)**, a medical organization consisting of specialists (surgeons, psychiatrists, and so on), often operating out of a health-care center. HMOs provide routine medical services to employees who pay a nominal fee. Employees often have "gatekeeper" doctors who must approve appointments with specialist doctors. The HMO receives a fixed annual fee per employee from the employer (or employer and employee), regardless of whether it provides that person service.

PPOs Preferred provider organizations (PPOs) are a cross between HMOs and the traditional doctor–patient arrangement: They are "groups of health-care providers that contract with employers, insurance companies, or third-party payers to provide medical care services at a reduced fee."⁴⁶ Unlike HMOs, PPOs let employees select providers (such as doctors) from a relatively wide list, and see them in their offices, often without gatekeeper doctor approval. Providers agree to discounts and to certain controls, for example, on testing.⁴⁷

MENTAL HEALTH BENEFITS The World Health Organization estimated that more than 34 million people in the United States between the ages of 18 and 64 suffer from mental illness.⁴⁸ WHO also estimates that in 2015, five crore Indians suffered from depression and another three crores from anxiety-related disorders. Low- and middle-income countries, including India, account for 78% of the reported suicides, of which Indians account for 1.5%.⁴⁹ A study by a leading employee assistance program provider in 2016 reported that 46% of workers in India suffer from stress, which can lead to more severe form of mental illness.⁵⁰ A more recent survey among Indian IT/ITES sector after the spate of lay-offs and job-losses placed the figure at 62.5%. The reason was mainly the feeling of job insecurity.⁵¹ Mental illnesses represent about 24% of all reported disabilities, more than disabling injuries, cardiovascular diseases, and cancer combined. For some reason Millennials are more likely to report being depressed.⁵²

Mental health costs are rising. Reasons include widespread drug and alcohol problems, more states requiring employers to offer minimum mental health benefits, and the fact that mental health claims tend to trigger other health-care claims.

COBRA IN U.S.

COBRA—the Consolidated Omnibus Budget Reconciliation Act—requires most private employers to continue to make health benefits available to separated employees and their families for a time, generally 18 months after separation.⁵³ The former employee must pay for the coverage.



Employers ignore COBRA's rules at their peril. The employer does not want separated employees to leave and be injured, and then claim they were never told they could have continued their insurance coverage. Therefore, when a new employee first becomes eligible for the company's insurance plan, the person *must* receive (and acknowledge receiving) an explanation of his or her COBRA rights. And all employees separated from the company should sign a form acknowledging that they received and understand those rights. (See Figure 13-2 for a checklist.)

Trends in Employer Health-Care Cost Control

It can cost a business with 50 employees \$1 million or more for insurance coverage. Health-care cost control is therefore one big way the HR department can improve profits.⁵⁴

Cost control should start by measuring and auditing health-care costs.⁵⁵ One survey several years ago found that while the *standard* for claims errors was 3%, the *actual* percentage of claims with errors was about 6.3%. The standard for claims dollars paid in error was 1%; the *actual* percentage of claims dollars paid in error was 3.4%. Consultants who audit employers' health-care payments estimate up to 8% overpayments. The bottom line is that auditing claims is essential.⁵⁶

FIGURE 13-2 Illustrative COBRA Compliance Checklist

Source: Adapted from: www.cobraplus.com/wp-content/themes/cobra-plus/images/constant/COBRAetup.pdf; COBRA Checklist, www.shrm.org/resourcesandtools; COBRA record keeping checklist, BLR Business and Legal Resources; and COBRA compliance checklist, <http://brscobra.com/cobra-checklist>, all accessed August 1, 2017. Copyright Gary Dessler, PhD.

Cobra to do list would include, for example:	✓ If Done
Complete COBRA services agreement with vendor.	☐
Complete COBRA census: who is covered, with their ages.	☐
Maintain records of those covered by group health plan.	☐
Notify all employees of their rights under COBRA.	☐
Document notification to qualified individuals if they are not eligible to continue coverage.	☐
Monitor COBRA election periods.	☐
Document all notifications (7 years).	☐
Receive signed COBRA election form.	☐
Maintain log of all inquiries received re COBRA.	☐
Track eligible individuals' COBRA payments.	☐
Notify insurers of cancellation of coverage.	☐
Notify qualified beneficiaries if they are not eligible for continued COBRA coverage.	☐
Mail COBRA qualifying event notice and election form to former employee.	☐
Maintain current addresses of those on COBRA.	☐
Maintain records of qualified COBRA beneficiaries.	☐
Terminate COBRA coverage.	☐

Beyond that, for many employers, deductibles and co-pays are the low-hanging fruit in health-care cost control. For example, at least 20% of employees were enrolled in high-deductible plans in one survey.⁵⁷ A study of healthcare cost of Indian companies by Tower Watson in 2015 indicated that health costs are increasing and over 55% employees are spending more than 25% of payroll costs on healthcare.⁵⁸ It was also found that unlimited employee health coverage was the main attraction point for Indian PSUs. For workers, the Employee State Insurance Corporation (ESIC) provided health care through its hospital network, and additionally, it provided healthcare insurance to protect against loss of salary due to illness. Under the health benefits, coverage to a larger set of dependents, including parents, is a unique feature in India.⁵⁹ Many Indian companies have started to organize preventive annual medical checkups for employees as well as their family members, through which they expect an early detection of health issues. In a bid to control costs, many employers are also asking employees to share part of the costs.⁶⁰

OTHER COST-CONTROL TOOLS Employers take other cost-control steps. For example, in the U.S. employees use tax-sheltered health savings accounts (HSAs) to pay for “low dollar” (not catastrophic) medical expenses.⁶¹ About 19% of employers surveyed had some form of health-care plan *spousal exclusion policies*, such as excluding a spouse when similar coverage was available from the spouse’s employer.⁶² Some employers offer *defined contribution health insurance plans*. Like 401(k) plans, defined contribution health insurance plans tie each employee’s health-care benefits to what he or she and the employer contributes, rather than providing health-care benefits that are defined in advance.⁶³

Many employers move Medicare-eligible retirees from their company health insurance plans into private individual exchanges. That reduces their own administrative obligations while offering retirees more choices for less money.⁶⁴ The exchanges are run by companies that include Mercer, and Aon Hewitt.

Other employers hire “patient advocates,” such as nurses who review employees’ medications and (with the consultation of independent physicians) recommend reduced medication regimens.⁶⁵ Some employers have *on-site medical centers*; here patient confidentiality rules, and state laws regarding medical waste disposal are just two issues to consider.⁶⁶

Also, *make sure employees know the costs* of their medical benefits.⁶⁷ For example, periodically send a statement to each employee listing the employer’s costs for each health benefit. *Online selection* lets employees choose the best of the employer’s health-care offerings, based on input from other employees concerning matters like doctor visits and specialists.

WELLNESS PROGRAMS The top three health-care priorities of employers in a recent Aon Hewitt Health Care Survey report were, “Offer incentives or disincentives to motivate sustained health-care behavior change”; and “Promote a culture of health in the workplace [such as healthy cafeteria foods] and “Move to rewarding improved health results or outcomes.”⁶⁸ Because various illnesses are preventable, many employers offer wellness/preventive programs. For example, in one 15-year period, the percentage of Johnson & Johnson employees who smoke dropped by two-thirds, in part assumedly due to its various wellness programs. J&J managers estimate the company earns about \$2.75 for every \$1.00 it spends on wellness.⁶⁹



Employers offer various wellness/preventive services and incentives.⁷⁰ *Clinical prevention* programs include things like mammograms and check-ups. Walgreens provides *on-site health-care services* such as mammograms.⁷¹ Insurer USAA offers options like these: employees pay \$300 a year to use company fitness centers, but those who go three or more times a week get 75% off; they have running and walking trails at many campuses, and mileage markers in company hallways; healthy foods are at eye level in the cafeterias, and pricing encourages workers to buy them; and employees have weight loss and other health incentives, and employees who meet the goals can earn up to \$550. Other wellness programs include obesity management, stress management, and smoking cessation.

Incentives can boost wellness program participation, but may backfire.⁷² (Whirlpool gave nonsmoker discounts worth about \$500 on health-care premiums. It suspended 39 workers caught smoking outside the plant after claiming on their enrollment forms that they were nonsmokers. Many Indian companies have created specific smoking zones, that help protect others from secondary/passive smoking.) Some employers offer standing desks. The desks may boost wellness; however, a recent study concluded that six hours a day of standing burned only about 54 calories—about the same as in a piece of fruit.⁷³

Wellness program research is mixed. J&J, as noted, has had positive results but in another study, wellness programs (including with incentives) did not change employees' behavior much.⁷⁴ The key seems to be to motivate the employee to take steps to stay well.

Two experts say this entails:

Leadership commitment and support For example, at Lincoln Industries, promoting health is embedded in the company's mission statement.⁷⁵

Build a culture of health Good health emerges from a culture evidenced by elements such as health-promoting policies, healthy food offerings, staircases rather than elevators, and treadmills.

Employee involvement Wellness requires employee engagement—they have to want it. Employees should “own” the wellness program, and should have a big role in its creation and operation.

Spread the word For example, USAA continually communicates in multiple ways to employees that the wellness program is there to serve them.

The accompanying Profit Center feature shows how one employer cut costs.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

The Doctor Is on the Phone

With more than 12,000 employees in its health plan, Rent-A-Center, U.S. was looking for a better way to get its employees the medical advice they required, while also reducing health plan costs. The company signed an agreement with Teladoc, Inc. Teladoc's doctors provide medical consultations over the phone. In the first 16 months the new telemedicine program was in effect, Rent-A-Center saved more than \$770,000 in doctor and hospital visits and in employee productivity that would have been lost.

The program seems to be win-win. The Teladoc consultation is free to employees, compared to a \$20 office co-payment, and the doctors are available 24 hours per day, usually within 30 minutes. If necessary, they call in antibiotics prescriptions. And for Rent-A-Center, there's that extra \$770,000 in their bottom line.⁷⁶ ■

Long-Term Care

Long-term care insurance—for things like nursing assistance for former employees in their old age—is a key employee benefit. Many Indian employers, particularly the PSUs and traditional Indian private companies, permit extension of healthcare facilities to retired employees and immediate family members.⁷⁷ Employers can also provide insurance benefits for related matters such as adult day care, assisted living, and custodial care.

Life Insurance

In addition to hospitalization and medical benefits, most employers provide **group life insurance** plans. The Group Insurance Scheme of the Life Insurance Corporation or LIC is a popular option. Such plans generally offer lower rates than individual plans, and usually accept all employees regardless of health or physical condition.

group life insurance

Provides lower rates for the employer or employee and includes all employees, including new employees, regardless of health or physical condition.

In general, there are three key personnel policies to address: the benefits-paid schedule (the amount of life insurance is usually tied to the employee's annual earnings), supplemental benefits (continued life insurance coverage after retirement, for instance), and financing (the amount and percent the employee contributes).

Accidental death and dismemberment coverage provides a lump-sum benefit in addition to life insurance benefits when death is accidental. It also provides benefits in case of accidental loss of limbs or sight.

Benefits for Part-Time and Contingent Workers

About 19 million people work part-time (less than 35 hours a week).⁷⁸ More gig work, more phased retirements, and a desire to better balance work and family life help explain this phenomenon. In any case, many firms provide holiday, sick leave, and vacation benefits to part-timers, and more than 70% offer some form of health-care benefits to them.⁷⁹

■ HR AND THE GIG ECONOMY: GIG WORKER BENEFITS

Employers that want to offer gig workers benefits are often reluctant to do so. The problem is providing gig workers with benefits, while maintaining their status as independent contractors not also entitled to things like payroll tax contributions.⁸⁰

The head of one company, Handy (whose independent contractors go to people's homes to clean or make repairs), is trying to do something about it.⁸¹ He's working with New York legislators to create legislation that would make it easier for employers to fund things like sick leave and portable benefits for their independent contractors, while keeping them as independent contractors.⁸² Uber partners with Stride Health, a health-care insurance marketplace that helps Uber drivers arrange for insurance they (not Uber) pay for themselves.⁸³



Retirement Benefits

Retirement benefits such as Social Security and pension plans are big HR issues, in no small part because the huge contingent (born 1946–1964) turns 65 between roughly now and 2029.

Social Security

Most people assume that **Social Security** provides income only when they are older than 62, but it actually provides three types of benefits. *Retirement benefits* provide an income if you retire at age 62 or thereafter and are insured

LEARNING OBJECTIVE 13-3

Discuss the main retirement benefits.

Social Security

Program that provides three types of benefits: retirement income and thereafter, survivor's or death benefits payable to the employee's dependents regardless of age at time of death, and disability benefits payable to disabled employees and their dependents. These benefits are payable only if the employee is insured under the U.S. Social Security Act.

pension plans

Plans that provide a fixed sum when employees reach a predetermined retirement age or when they can no longer work due to disability.

defined contribution pension plan

A plan in which the employer's contribution to employees' retirement savings funds is specified.

portability

Instituting policies that enable employees to easily take their accumulated pension funds when they leave an employer.

401(k) plan

A defined contribution plan based on section 401(k) of the Internal Revenue Code.



under the Social Security Act. In India, the main social security institutions are: (i) Employees Provident Fund, (ii) dependent support provided by the ESIC, (iii) gratuity provided under the Payment of Gratuity Act, 1972, and (iv) compensation in case of injury or disability under Employees Compensation Act, 1923. All the above are being consolidated under the Social Security Code, soon expected to come into force. Second are *survivor's or death benefits*. These provide monthly payments to your dependents regardless of your age at death (assuming you're insured under Social Security). Finally, *disability payments* provide monthly payments to employees who become disabled totally (and to their dependents) if they meet certain requirements. The U.S. Social Security system also administers the Medicare program, which provides health services to people age 65 or older.

Pension Plans

Pension plans provide income to individuals in their retirement, and just over half of full-time workers participate in some type of pension plan at work. Pension planners classify pension plans as *contributory versus noncontributory* plans, and as *defined contribution versus defined benefit* plans.⁸⁴ The employee contributes to contributory pension plans, while the employer makes all contributions to noncontributory plans. Defined benefits plans “define” how much the pension will be, while with defined contribution plans the benefits (if any) will depend on the contributions to the plan and on how the assets performed. Note that some plans are also “qualified” (or not), insofar as they receive favorable treatment under the tax code.

Again, with **defined benefit pension plans**, the employee's pension is specified (“defined”), in that the person knows in advance his or her pension benefits.

Defined contribution pension plans specify (“define”) what *contribution* the employee and employer will make to the employee's retirement or savings fund. Here the contribution is defined, not the pension. With a *defined benefit* plan, the employee can compute what his or her retirement *benefits* will be upon retirement. With a *defined contribution* plan, the actual pension will depend on the amounts contributed to the fund *and* on the success of the fund's investment earnings. Defined contribution plans are popular among employers due to their relative ease of administration, favorable tax treatment, and other factors. **Portability**—the ability of employees who leave the firm prior to retirement to take their accumulated pension funds with them—is easier with defined contribution plans.

In any case, private sector CEO retirement packages tend to dwarf the average employee's.⁸⁵ For example, when Target's CEO stepped down after a huge credit card breach, he walked away with retirement plans worth more than \$47 million, plus a \$7.2 million severance payment and \$4.1 million from vested stock awards.

401(K) PLANS IN U.S. The most popular defined contribution plans are based on section 401(k) of the Internal Revenue Code, and are called **401(k) plans**. The employee authorizes the employer to deduct a sum from his or her paycheck before taxes, and to invest it in the bundle of investments in his or her 401(k) account. The deduction is pretax, so the employee pays no tax on those dollars until after he or she retires (or removes the money from the 401(k) plan). The person can deduct annually an amount up to the IRS maximum (about \$15,000). Employers often match employees' 401(k) contributions dollar for dollar up to a set percentage. The employer arranges, usually with an

investment company such as Fidelity Investments, to administer the 401(k) plan and to make investment options (typically mutual stock funds and bond funds) available to the plan.⁸⁶

OTHER PLANS The 401(k) plan is one example of a **savings and thrift plan**.⁸⁷ In any such plan, employees contribute a portion of their earnings to a fund, and the employer usually matches this contribution completely or in part.

As discussed in Chapter 12 (Incentives), employers use a **deferred profit-sharing plan** to contribute a portion of their profits in cash to a pension fund, regardless of the level of employee contribution. An **employee stock ownership plan (ESOP)** is a qualified, tax-deductible defined contribution plan in which employers contribute stock to a trust for eventual use by employees who retire.

CASH BALANCE PENSION PLANS With *defined benefits* plans, to get your maximum pension, you generally must stay with your employer until you retire—the formula takes the number of years you work into consideration. With *defined contribution* plans, your pension is more portable—you can leave with it at any time. **Cash balance plans** are a hybrid; they have defined benefit plans' more predictable benefits, but the portability of defined contribution plans. The employer contributes a percentage of employees' current pay (usually 5%) to the employees' pension plans every year, and employees earn interest on this amount.⁸⁸



KNOW YOUR EMPLOYMENT LAW

National Pension Scheme, India

The National Pension Scheme (NPS) is a voluntary, defined contribution pension that has come into force from January 1, 2004. With the introduction of NPS, the government of India has replaced the existing Defined Benefit Pension System with a contribution-based one. All new employees (except for the Armed Forces) who joined employment from January 1, 2004, were covered by the NPS. At present, any Indian citizen including self-employed professionals can join the NPS scheme. The scheme is offered by Pension Fund Managers (like SBI Pension Fund, LIC Pension Fund, Kotak Pension Fund, Reliance Capital Pension Fund, etc.) and it is regulated by the Pension Fund Regulatory and Development Authority of India (PFRDA). ■



IMPROVING PERFORMANCE: THROUGH HRIS

Online Benefits Management Systems

It can be enormously time-consuming answering benefits questions such as, “If I retire in 5 years, what will be my monthly retirement income?” Most employers therefore opt for online self-service applications.

For example, when the organization that assists Pennsylvania school districts with their insurance needs decided to help the school boards automate their benefits administration, they chose a company called Benelogic.⁸⁹ The solution, called the “Employee Benefit Electronic Service Tool,” lets users manage all aspects of benefits administration, including enrollment, plan descriptions, eligibility, and premium reconciliation, via their browsers.⁹⁰

deferred profit-sharing plan

A plan in which a certain amount of profits is credited to each employee's account, payable at retirement, termination, or death.

employee stock ownership plan (ESOP)

A qualified, tax-deductible stock bonus plan in which employers contribute stock to a trust for eventual use by employees.

cash balance plans

Plans under which the employer contributes a percentage of employees' current pay to employees' pension plans every year, and employees earn interest on this amount.

Benelogic hosts and maintains the Web application on its servers, and creates customized, Web-based applications for each school district. The system facilitates online employee benefit enrollment, and provides centralized call center support for benefit-related questions. It even handles benefits-related payroll and similar functions by collaborating with companies like ADP (for payroll). Each school board employee accesses the Benelogic site via a link on his or her own board's Web site. ■



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Communicating with employees about their benefits once required time-consuming HR assistance, but with digital and social media that's no longer the case.⁹¹ Some use their Facebook and LinkedIn pages to publicize their benefits to a wider audience. Siemens created an internal social media Web site for its 13,000 UK employees. Siemens UK uses it to keep its employees up-to-date about its latest employee benefits offerings, to run real-time employee feedback polls about Siemens benefits, and to remind employees about the availability of various benefits. (For example, that each employee has points to use as part of the Siemens employee recognition program.)

To facilitate employee benefits self-management, other employers provide workers with mobile apps.⁹² For example, clients of Discovery Benefits Inc., a benefits administrator, reportedly logged in through its app about 25,000 times in one year, saving Discovery the time it would have spent dealing with call-ins.⁹³

Social media sites can also get workers in trouble. In one case, an employee took a sick day, saying that chronic pain prevented her from coming to work. Unfortunately, she posted pictures of herself drinking at a festival the day she was supposed to be home sick. One of her Facebook "friends" got the photo and showed it to a company supervisor. The company fired her for absence, and an appeals court upheld the employer's decision.⁹⁴ ■



LEARNING OBJECTIVE 13-4

Outline the main employees' services benefits.

Personal Services and Family-Friendly Benefits

Although time off, insurance, and retirement account for the lion's share of benefits costs, most employers also provide various services benefits. These include personal services (such as legal and personal counseling), "family-friendly" services (such as child-care facilities), educational subsidies, and executive perquisites (such as company cars for executives).

Personal Services

Personal services benefits include credit unions, legal services, counseling, and social and recreational opportunities. All are voluntary benefits, rather than required or mandatory under the law.

Perhaps most notably, **employee assistance programs (EAPs)** provide counseling and advisory services, such as personal legal services, adoption assistance, or mental health counseling, for personal problems that may adversely affect the employee's work life. According to a survey in India, 46% with more than 60% of larger firms offering them. According to a survey in India, 46% of Indian employees suffer from stress, while 43% have skewed BMI (body mass index). Some of the issues faced by Indian employees are poor relationships, work performance, expectations, and lifestyle problems

employee assistance program (EAP)

A formal employer program for providing employees with counseling and/or treatment programs for problems such as alcoholism, gambling, or stress.

like unhealthy eating habits, lack of sleep, consumerist culture with pressures of bank loans, and living standards. Many Indian organizations use services of EAP (employee assistance program) providers to support employees in these areas. PSUs like SAIL, NTPC, and IOCL have full-fledged medical departments with qualified doctors and referral tie-ups, which can be availed by employees in need. One study found that personal mental health was the most common problem addressed by employee assistance programs, followed by family problems.⁹⁵

For employers, EAPs produce advantages, not just costs. For example, sick family members and problems like depression account for many sick days. Employee assistance programs can reduce such absences by providing expert advice on issues like elder care referrals.⁹⁶ Few but the largest employers establish their own EAPs.

In either case, everyone involved, including supervisors and EAP staff, must respect *confidentiality*. Also keep files locked, limit access, and minimize identifying information. *Be aware of legal issues.* For example, in most states counselors must disclose suspicions of child abuse to state agencies. *Define* the program's purpose, employee eligibility, the roles and responsibilities of EAP and employer personnel, and procedures for using the plan. Ensure your EAP vendors fulfill *professional and state licensing requirements*.

Family-Friendly Benefits

Several trends have changed the benefits landscape. There are more households where both adults work, more one-parent households, more women in the workplace, and more workers over age 65.⁹⁷

Such trends lead many employers to bolster their family-friendly (or work-life) benefits.⁹⁸ These include childcare, elder care, fitness facilities, and flexible work schedules - benefits that help employees balance their family and work lives.⁹⁹ We'll look at some examples.

SUBSIDIZED CHILD CARE The Factories Act, 1948 mandates that child-care facilities should be provided by the employer, if the number of women working are 30 or more. Many Indian companies have taken positive steps to provide

family-friendly (or work-life) benefits

Benefits such as child care that make it easier for employees to balance their work and family responsibilities.

Software giant SAS Institute, Inc., is one company that offers generous employee benefits. The North Carolina firm keeps turnover at 4% in an industry where 20% is typical, partly by offering family-friendly and other benefits like paid maternity leave, day care on site, lunchtime piano concerts, massages, and yoga classes like this one.



bearmoney/Shutterstock

child-care facilities within their premises. But, most working people make private provisions to take care of their children. Employers who want to reduce the distractions associated with finding reliable child care can help. Some simply investigate the day care facilities in their communities and recommend certain ones to employees. Others set up company-sponsored and subsidized day care facilities. For example, Cummins India, which has more than 30% women employees, has set up high-quality childcare facilities in their offices and factories. Other Indian companies providing similar facilities are ICICI Bank, HUL, EY, etc.¹⁰⁰ Among educational institutions, IIMA has a daycare centre which provides child-care and after school care for the children of the institutes' staff. Abbott Laboratories built a \$10 million child-care centre at its headquarters north of Chicago and a daytime home for about 400 children of Abbott employees.¹⁰¹

By establishing subsidized daycare, employers assumedly can benefit in several ways. These include improved recruiting results, lower absenteeism, improved morale, favourable publicity, and lower turnover. But, good planning is required. This often starts with a questionnaire to employees to answer questions like, "What would you be willing to pay for care for one child in a child-care centre near work?"

ELDER CARE The responsibility of caring for ageing relatives can affect employee performance.¹⁰² On study found that, to care for an older relative, 64% of employees took sick days or vacation time, 33% decreased work hours, 22% took leaves of absence, 20% changed their job status from full to part-time, 16% quit their jobs and 13% retired early.

More employers in the U.S. are therefore providing elder care services, though such facility has to gain acceptance in India. For example, the United Auto Workers and Ford provide elder care referral services for Ford's salaried employees, including assessments and recommendations on the best care.¹⁰³

EDUCATIONAL SUBSIDIES The percentage of employers offering education benefits is diminishing.¹⁰⁴ Such programs are expensive, and the employer may also be paying its best employees to leave. Researchers studied how the U.S. Navy's part-time college education reimbursements influenced job mobility. Taking tuition assistance decreased the probability the person stayed in the Navy.¹⁰⁵

Payments may range from all tuition and expenses down to a fixed amount per year. Many employers also reimburse non-job related courses (such as Web designer taking an accounting class) that pertain to company business.¹⁰⁶ Many employers provide college programs on the employer's premises or remedial work in basic literacy. BITS Pilani provides a range of technical courses, leading to BS or MS degrees. Companies like Cummins India, Zydus-Cadila, L&T, etc., have tied up with IIMA and other B-schools to provide long-duration programs. The ePGP program of IIMA, offered through satellite learning, is an option for companies to encourage employees to obtain formal management qualification.¹⁰⁷

Other Personal Services Benefits

Employers provide other personal services benefits.¹⁰⁸ Google, perennially one of the "100 best companies to work for," is famous for its personal services benefits. Google arranges with local vendors to provide on-Google-site programs such as ATMs, mobile libraries, bike repair, car wash and oil change, dry cleaning, haircuts and salons, and organic grocery delivery.¹⁰⁹ Free though

they are to Google, why does Google even bother? Largely because their on-site availability boosts employees' efficiency by reducing the need for them to seek services off-site. (It also offers the Google Child Care Center, and free shuttle service from San Francisco, for instance).¹¹⁰ CVS Caremark, seeking to retain older employees, offers various elder-friendly benefits. Its "snowbird" program lets pharmacists winter in Florida and work in the Northeast when it's warmer, for instance.¹¹¹ Nestlé Purina Pet Care's St. Louis headquarters lets employees bring their dogs to work.¹¹² PriceWaterhouseCoopers helps employees pay off student loans.¹¹³ Most *Fortune* 500 companies offer donation-matching programs.¹¹⁴



Diversity Counts: Domestic Partner Benefits

When employers provide *domestic partner benefits* the employees' same-sex or opposite-sex domestic partners are eligible to receive the same benefits (health care, life insurance, and so forth) as do the husband, wife, or legal dependent of one of the firm's employees. Many U.S. employers offer domestic partner benefits, while Indian employers are yet to openly extend partner benefits to LGBT couples. Godrej Industries is an Indian company which has started initiatives to support its LGBTQ employees and their partners and make them more comfortable at workplace. Facilities like medical care are extended to the partners, encourages its employees to support and participate in public events connected with diverse groups like the Bangalore Parade 2015.¹¹⁵ TCA, part of Tata Group introduced a change in its health-care policies, by including same sex spouses also as eligible for benefits.¹¹⁶ ■

The Strategic Context feature illustrates how one employer uses benefits to support its strategic goals.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Gary Erickson started Clif Bar as a small bakery and grew it into a company that's been growing 20% per year. Central to his "healthy foods" strategy is the idea that his hundreds of employees should live the values of sustainability, healthiness, and eco-friendliness.¹¹⁷ Therefore, he put together a benefits package that encouraged just such values. For example, the company encourages eco-friendliness by reimbursing employees up to \$6,500 if they buy hybrid or electric vehicles. Those who bike or walk to work receive \$1,500 per year. Clif Bar's subsidized cafeteria serves meals cooked with local organic ingredients. Employees become eligible for 6-week paid sabbaticals after 7 years working for the company. He put in place an employee stock option plan (ESOP). With employee turnover only 3% per year, Clif Bar received over 7,500 applications for 114 open jobs one year, so his benefits plan also seems to be helping keep workforce costs under control.

Executive Perquisites

When you reach the pinnacle of the organizational pyramid—or close to the top—you will find, waiting for you, the "executive perk." Perquisites (perks for short) are special benefits for top executives. They range from company planes to private bathrooms.

Most fall between these extremes. Perks include *management loans* (typically to exercise executives' stock options); *financial counseling*; and *relocation benefits*, often including subsidized mortgages, purchase of the executive's current house, and payment for the move. Publicly traded companies must



LEARNING OBJECTIVE 13-5

Explain the main flexible benefit programs.

itemize all executives' perks (if they total more than \$100,000). Income tax rules in India clearly specifies the tax burden of executive perquisites. Good corporate governance also requires disclosure of such perquisites. For example, in the recent case of Infosys, excessive severance pay to the former CEO and use of private plane were the governance issues raised by its founders.

Flexible Benefits Programs

In a report titled "Employee Benefits: What Each Generation Wants," Glassdoor says employees increasingly seek flexibility.¹¹⁸ They say baby boomers value salary level, health insurance, and retirement plans. Gen Xers (born roughly from the 1960s to the early 1980s) value salary level, a 401K plan with matching benefits, job security, advancement, and work-life balance. Millennials (born roughly from the early 1980s to early 2000s) value benefits choices, paid time off, ability to work remotely, control over their schedules, and flexibility. Offering flexibility thus makes sense.

The Cafeteria Approach

One way to provide choice is with an aptly named *cafeteria benefits plan*. To paraphrase the U.S. Internal Revenue Service, a **cafeteria plan** provides participants an opportunity to receive a choice of certain benefits on a pretax basis. Qualified benefits include, for instance, accident and health benefits, adoption assistance, dependent care assistance, and group-term life insurance coverage.¹¹⁹

Cafeteria plans come in several varieties.¹²⁰ For example, *flexible spending accounts* are a form of cafeteria plan that reimburses employees for expenses they incur for buying certain qualified benefits;¹²¹ the employees pay for the benefits with pretax dollars. With a *core plus option plan*, the employer specifies a core set of benefits (such as medical insurance), which are required; beyond those the employee can choose (up to a limit) which other benefits he or she wants.

The accompanying HR Tools feature explains how many smaller employers manage the costs of their various benefits.

cafeteria benefits plan

Individualized tax-qualified plans allowed by employers to accommodate employee preferences for benefits.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Benefits and Employee Leasing

Many businesses—particularly smaller ones—don't have the resources or employee base to support the cost of many of the benefits we've discussed in this chapter. That's one big reason they turn to "employee leasing."

In brief, employee leasing firms (also called *professional employer organizations* or *staff leasing firms*) assume all or most of the employer's human resources chores. In doing so, they also become the employer of record for the employer's employees, by transferring them all to the employee leasing firm's payroll. The leasing firm thus becomes the employees' legal employer, and usually handles employee-related activities such as recruiting, hiring (with client firms' supervisors' approvals), and paying taxes (Social Security payments, unemployment insurance, and so on).

But insurance and benefits are usually the big attraction. Even group rates for life or health insurance can be quite high when only 20 or 30 employees are involved. That's where leasing comes in. Remember that the leasing firm is now

the legal employer. The employees are thus part of a larger insurable group, along with other employers' former employees. The small business owner may get insurance it couldn't otherwise afford.

As in dealing with all vendors, the employer should have a detailed negotiated agreement with the employee leasing firm. Define what the services will be; include priorities, responsibilities, and warranties.¹²² Understand that if the leasing firm merges into another firm, the new parent may require you to change your systems once the contract period expires.¹²³ ■

Flexible Work Schedules

Flexible work schedules are popular.¹²⁴ In one survey about 70% of surveyed employees called flexible work hours "very important."¹²⁵

Flextime is a plan whereby employees' workdays are built around a core of midday hours, such as 11:00 A.M. to 2:00 P.M. Thus, workers may opt to work from 8:00 A.M. to 4:00 P.M. or from 11:00 A.M. to 7:00 P.M. In one survey of employers about 57% offered flextime.¹²⁶ Flexible timing is a much sought-after benefit by Indian employees. A survey indicated that 85% of Indians are not happy with their working hours. At the same time, more Indian companies are willing to offer flextime options to their employees.¹²⁷ The effect of flex-time for most employees is about 1 hour of leeway before 9:00 A.M. or after 5:00 P.M.¹²⁸

flextime

A work schedule in which employees' workdays are built around a core of midday hours, and employees determine, within limits, what other hours they will work

Some writers suggest that inflexible schedules help explain both the gender pay gap and the fact that women hold few top management jobs. A new job search site (www.saywerk.com) negotiates ahead of time with employers to provide flexible schedules for any jobs listed on its site.¹²⁹

Telecommuting—using technology to work away from the office—is popular. Almost two-thirds (62%) of employers offer at least some telecommuting.¹³⁰ Some jobs have much higher rates than others. Historically, for example, almost 45% of medical transcription is reportedly work from home.¹³¹ Just over 13 million Americans work from home at least one day per week, with Fridays and Mondays the favorite days to stay home.¹³² On the other hand, Yahoo! famously said a few years ago that it needed its employees "working side by side" and brought them back to the office.¹³³

Employers that offer telecommuting must calculate the program's benefits and costs. Thus, Delta Airlines spends an initial \$2,500 for each home-based reservation agent for computer and software licenses, but pays each such agent \$1.50 per hour less than call-center counterparts. Less obvious expenses include having IT answer telecommuters' technical questions.¹³⁴ Telecommuting's effects on the environment, of course, are positive, given the reduced commuting.

Studies of telecommuting's effects on productivity are mixed. A program at Capital One Bank apparently led to about a 41% increase in workplace satisfaction, and a 53% increase in those who say their workplace enhances group productivity.¹³⁵ Another study concluded that telecommuting had positive effects for creative jobs but negative effects for dull jobs.¹³⁶ Detractors contend that telecommuting reduces camaraderie and opportunities for collaboration and synergies at work.¹³⁷ Yahoo! famously said a few years ago that it needed its employees "working side by side" and brought them back to the office.¹³⁸

COMPRESSED WORKWEEKS Many employees, like airline pilots, don't work conventional 5-day, 40-hour workweeks.¹³⁹

compressed workweek

Schedule in which employee works fewer but longer days each week.

job sharing

Allows two or more people to share a single full-time job.

work sharing

Refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs.

Workers like these typically have **compressed workweek** schedules—they work fewer days each week, but each day they work longer hours. Some firms have four 10-hour day workweeks. Some workers—in hospitals, for instance—work three 12-hour shifts, and then take off for 4 days.¹⁴⁰ About 29% of employers in one survey reported using compressed workweeks.¹⁴¹ Some experts argue that 12-hour shifts increase fatigue and accidents. To reduce potential side effects, some employers install treadmills, exercise bikes, and special lights that mimic daylight.

OTHER FLEXIBLE WORK ARRANGEMENTS **Job sharing** allows two or more people to share a single full-time job. For example, two people may share a 40-hour-per-week job, with one working mornings and the other working afternoons. For example, two retired friends arranged to share a job (working alternate days) at a library.¹⁴² About 11% of the firms questioned recently indicated that they allow job sharing, down from 22% several years ago.¹⁴³ **Work sharing** refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs. Thus, 400 employees may all agree to work (and be paid for) only 35 hours per week, to avoid a layoff of 30 workers.¹⁴⁴

LEARNING OBJECTIVE 13-6

Explain how to use benefits to improve engagement, productivity, and performance.

Employee Engagement Guide for Managers

Costco's Compensation Plan

Costco's HR strategy is to deflect Walmart's famously low costs and wages by paying employees more, and thereby producing improved employee engagement, productivity, and customer service.¹⁴⁵

Chapter Review

Chapter Section Summaries

- 13-1.** Employers provide numerous **pay for time not worked benefits**. These include unemployment insurance, vacation and other leave days, and sick pay. Minimizing sick leave pay is important, and here cost reduction tactics include paid leave plans that lump sick leave, vacation, and holidays into one leave pool. The Family and Medical Leave Act requires larger employers to provide up to 12 weeks of unpaid leave for family-related issues.
- 13-2.** Most employers also provide required or voluntary **insurance benefits**. Workers' compensation laws aim to provide sure, prompt medical benefits to work-related accident victims or their dependents, regardless of fault. Most employer health plans provide at least basic hospitalization and surgical and medical insurance for eligible employees. When

an employee is terminated or terminates his or her employment, it is essential that the employer make the person aware of his or her COBRA rights. Employers generally work hard to keep the rising cost of health-care insurance under control.

- 13-3.** **Retirement benefits** are important to employees today. Social Security is a program that provides retirement income as well as other benefits. Many employers make available pension plans; these provide an income when employees reach retirement age or when they can no longer work due to disability. Defined benefit plans contain a formula for determining retirement benefits, while defined contribution plans are plans in which the contribution to employees' retirement savings plans is specified.

13-4. Most employers also provide various **personal services and family-friendly benefits**. These include credit unions, employee assistance programs, and subsidized child care and elder care.

13-5. Employees prefer choice in their benefits plans, so **flexible benefits programs** are important. Flexible benefits or cafeteria benefits plans are individual plans that accommodate employee preferences for benefits. Some employers turn to employee leasing companies to capitalize on the advantage of the leasing firm's large employee base to get

better employee benefits for their employees. Employers also are implementing various types of flexible work schedules, including flextime, compressed workweeks, and other flexible work arrangements such as job sharing.

13-6. Costco's HR strategy is to deflect Walmart's low wages by paying employees more, thereby producing more **employee engagement**, higher productivity, and better customer service. As one example, Costco pays about 90% of the health insurance costs of its over 90,000 domestic employees.

Discussion Questions

13-1. What is unemployment insurance? Is an organization required to pay unemployment benefits to all dismissed employees? Explain how

you would go about minimizing your organization's unemployment insurance tax.

13-2. Describe the main retirement benefits.

Individual and Group Activities

13-3. Working individually or in groups, research the unemployment insurance rate and laws of your state. Write a summary detailing your state's unemployment laws. Assuming Company X has a 30% rate of annual personnel terminations, calculate Company X's approximate unemployment tax rate in your state.

13-4. Assume you run a small business. Working individually or in groups, visit the Web site www.dol.gov/elaws. See the Small Business Retirement Savings Advisor. Write a two-page summary explaining: (1) the various retirement savings programs available to small business employers, and (2) which retirement savings program you would choose for your small business, and why.

13-5. You are the HR consultant to a small business with about 40 employees. Now the firm offers only 5 days of vacation, 5 paid holidays, and legally mandated benefits such as unemployment insurance payments. Develop a list

of other benefits you believe it should offer, along with your reasons for suggesting them.

13-6. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.



Experiential Exercise

Revising the Benefits Package

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to provide practice in developing a benefits package for a small business.

Required Understanding: Be very familiar with the material presented in this chapter. In addition, review Chapter 11 to reacquaint yourself with sources of compensation survey information, and come to class prepared to share with your group the benefits package for the small business in which you work or in which someone with whom you're familiar works.

Application Case

Striking for Benefits¹⁴⁶

Written and copyrighted by Gary Dessler, PhD.

When the Southern California grocery workers went on strike against the state's major supermarket chains, the main issue was employee benefits, and specifically how much of their health-care costs the employees should pay themselves. Based on their existing contract, the workers had unusually good health benefits. For example, they paid nothing toward their health insurance premiums, and paid only \$10 co-payments for doctor visits. However, supporting these excellent health benefits cost the big Southern California grocery chains over \$4 per hour per worker.

The big grocery chains were not proposing cutting health-care insurance benefits for their existing employees. Instead, they proposed putting any new employees hired after the new contract went into effect into a separate insurance pool, and contributing \$1.35 per hour for their health insurance coverage. That meant new employees' health insurance would cost each new employee perhaps \$10 per week. And, if that \$10 per week wasn't enough to cover the cost of health care, then the employees would have to pay more, or do without some of their benefits.

It was a difficult situation for all involved. For the grocery chain employers, skyrocketing health-care costs were undermining their

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. Your assignment is as follows: Jacob Mathew runs a small personnel recruiting office in Mumbai and has decided to start offering an expanded benefits package to her 25 employees. At the current time, the only benefits are 7 paid holidays per year and 5 sick days per year. In her company, there are 2 other managers, as well as 17 full-time recruiters and 5 secretarial staff members. Your assignment is as follows:

- In the time allotted, your group should create a benefits package in keeping with the size and requirements of this firm.

competitiveness; the current employees feared any step down the slippery slope that might eventually mean cutting their own health benefits. The unions didn't welcome a situation in which they'd end up representing two classes of employees, one (the existing employees) who had excellent health insurance benefits, and another (newly hired employees) whose benefits were relatively meager, and who might therefore be unhappy from the moment they took their jobs and joined the union.

Questions

- 13-7. Assume you are mediating this dispute. Discuss five creative solutions you would suggest for how the grocers could reduce the health insurance benefits and the cost of their total benefits package without making any employees pay more.
- 13-8. From the grocery chains' point of view, what is the downside of having two classes of employees, one of which has superior health insurance benefits? How would you suggest they handle the problem?
- 13-9. Similarly, from the point of view of the union, what are the downsides of having to represent two classes of employees, and how would you suggest handling the situation?

Continuing Case

Carter Cleaning Company

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The New Benefit Plan

Carter Cleaning Centers has traditionally provided only legislatively required benefits for its employees. These include unemployment

compensation, Social Security, and workers' compensation (which is provided through the same insurance carrier that insures the stores for such hazards as theft and fire). The principals of the firm—Jack, Jennifer, and their families—have individual, family-supplied health and life insurance.

Jennifer can see several potential problems with the company's policies regarding benefits and services. One is turnover.

She wants to study whether similar companies' experiences with providing health and life insurance benefits enable these firms to reduce employee turnover and perhaps pay lower wages. Jennifer is also concerned that her company has no formal vacation or paid days off or sick leave policies. Informally, at least, it is understood that employees get 1 week's vacation after 1 year's work, but in the past the policy regarding paid vacations for days such as New Year's Day and Thanksgiving Day has been very inconsistent. Sometimes employees who had been on the job only 2 or 3 weeks were paid fully for one of these holidays, while at other times employees who had been with the firm for 6 months or more had been paid for only half a day.

She also wonders whether it would be advisable to establish some type of day care center for the employees' children. Many

of them have no place to go during the day (they are preschoolers) or have no place to go after school; she wonders whether a day care benefit would be in the best interests of the company.

Questions

- 13-10. Draw up a policy statement regarding vacations, sick leave, and paid days off for Carter Cleaning Centers.
- 13-11. What would you tell Jennifer are the advantages and disadvantages to Carter Cleaning Centers of providing its employees with health, hospitalization, and life insurance programs?
- 13-12. Would you advise establishing some type of day care center for the Carter Cleaning employees? Why or why not?

Translating Strategy into HR Policies and Practices Case[§]

Improving Performance at the Hotel Paris

The New Benefits Plan

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy by eliciting the required employee behaviors and competencies.

While the Hotel Paris's benefits (in terms of things like holidays and health care) were comparable to other hotels', Lisa knew they weren't good enough to support the high-quality service behaviors her company sought. Indeed, the fact that they were roughly comparable to those of similar firms didn't seem to impress the Hotel Paris's employees. Sixty percent of them consistently said they were dissatisfied with their benefits. Lisa's concern (with which the CFO concurred) was that dissatisfaction with benefits contributed to low morale and engagement, and thus to inhibiting the Hotel Paris from achieving its strategic aims. Lisa therefore turned to the task of assessing and redesigning the company's benefits plans.

As they reviewed the benefits numbers, Lisa and the CFO became concerned. They computed several benefits-related metrics for their firm, including benefits costs as a percentage of payroll, sick days per full-time-equivalent employee per year, benefits cost/competitor's benefits cost ratio, and workers' compensation experience ratings. The results, said the CFO, offered a "good news—bad news" situation. On the good side, as noted, the ratios were similar to most competing hotels'. The bad news was that the measures were well below those for high-performing service businesses. The CFO authorized Lisa to design and propose a new benefits plan.

Lisa knew there were several things she wanted to accomplish. She wanted a plan that contributed to improved employee morale and engagement. And, she wanted the plan to include elements that made it easier for her employees to do their jobs—so that, as

she put it, "they could come to work and give their full attention to giving our guests great service, without worrying about child care and other family distractions."

The new plan's centerpiece was a proposal for much better family-friendly benefits. Because so many of each hotel's employees were single parents, and because each hotel had to run 24 hours a day, Lisa's team proposed, and the board approved, setting aside a room in each hotel for an on-site child-care facility and for hiring a trained professional attendant. They considered instituting a flexible work schedule program, but for most of the jobs, this was impractical, because each front-line employee simply had to be there at his or her appointed hour. However, they did institute a new job-sharing program. Now two people could share one housekeeping or front-desk clerk job, as long as the job was covered.

One of the metrics Lisa and her team specifically wanted to address was the relatively high absence rate at the Hotel Paris. Because so many of these jobs are front-line jobs—valets, limousine drivers, and front-desk clerks, for instance—absence had a particularly serious effect on metrics like overtime pay and temporary help costs. Here, at the urging of her compensation consultant, Lisa decided to opt for a system similar to Marriott's BENETRADE. With this benefit program, employees can trade the value of some sick days for other benefits. As Lisa put it, "I'd rather see our employees using their sick day pay for things like additional health-care benefits, if it means they'll think twice before taking a sick day to run a personal errand."

After just less than a year, Lisa and the CFO believe the new program is successful. Their studies suggest that the improved benefits are directly contributing to improved employee morale and commitment, sick days have diminished by 40%, and employee turnover is down 60%. And when they advertise for open positions, over 60% of the applicants cite "family-friendly benefits" as a top reason for applying to work at the Hotel Paris.

Questions

- 13-13. What is your opinion of the new Hotel Paris benefits plan?

13-14. Because employers typically make benefits available to all employees, they may not have the motivational effects of incentive plans. Given this, list five employee behaviors you believe Hotel Paris could try to improve through an enhanced benefits plan, and explain why you chose them.

13-15. Given your answer to question 13-16 and what you read in this chapter of Dessler *Human Resource Management*, explain specifically what other benefits you would recommend the Hotel Paris implement to achieve these behavioral improvements.

Key Terms

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14

Building Positive Employee Relations

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 14-1** Define *employee relations*.
- 14-2** Discuss at least four methods for managing employee relations.
- 14-3** Explain what is meant by ethical behavior.
- 14-4** Explain what is meant by fair disciplinary practices.
- 14-5** Answer the question, "How do companies become 'Best Companies to Work For'?"

Four days after more than 4,000 non-permanent workers of Tata Motors, Jamshedpur went on strike, an agreement between the management and union was reached at. The pay difference between permanent and non-permanent staff for August 2017 was the point of clash. The four-day work stoppage led to significant loss of production.¹ We'll see what can be done in similar situations to alleviate tension.



WHERE ARE WE NOW . . .

Although people tend to view recruitment, selection, appraisal, training, and compensation as the heart of human resource management, most employees expect something more. For example, they expect to be treated fairly, and to have a safe work environment. Now, in Part Five, we therefore turn to ethics, employee fairness, safety, and union relations. The main purpose of this chapter is to explain the building blocks of positive employee relations. Our topics include **What Is Employee Relations, Managing Employee Relations, Using Human Resource Management Tools to Promote Ethics and Fair Treatment, Managing Employee Discipline, and Employee Engagement Guide for Managers.**



LEARNING OBJECTIVE 14-1

Define *employee relations*.

employee relations

The activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.

What Is Employee Relations?

Anyone who has worked knows that some companies are better to work for than are others. Some Indian companies such as NTPC Ltd, Ujjivan Small Finance Bank Limited, Godrej Consumer Products Limited (GCPL), Lemon Tree Hotels Limited, and The Oberoi Group show up repeatedly on the list of “Best Indian Companies to Work for or Great Place to Work.” At the same time, many others always seem to garner labor problems and negative press. Similar situation exists around the globe. This commonsense observation reflects the fact that some companies do have better employee relations than do others.

Employee relations (ER) are also referred to as industrial relations (IR) when trade unions are involved. Employment Relations is also used by many authors, when unions are involved in contexts other than industry, i.e., like service (In this chapter we use the term interchangeably). Is is the managerial activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.² Whether you’re recruiting employees, managing union organizing campaigns, asking employees to work overtime, or doing some other task, it obviously makes sense to have employees “on your side.” Many employers therefore endeavor to build positive employee relations, on the sensible assumption that doing so beats building negative ones. Managing employee relations is usually assigned to HR, and is a topic that both the MBA students and HRM specialists learn in their curriculum. But, of late, the focus on studying ER has reduced in India.

Employers can do many things to build positive employee relations. Some examples include good training, fair appraisals, and competitive pay and benefits (all of which we discussed in previous chapters). Cooperation between trade unions and managers is another powerful way to ensure positive employee relations. According to an observer, Bajaj Auto, Thermax Limited and Bosch (Pune) can be cited as examples where the trade union works as a business partner to the management, with positive results for the company and workers.³ Cochin Shipyard Limited, Kerala, is an example of a central PSU that has maintained positive ER through union-management relationship. Even the recent point of contention with unions about IPO (initial public offering), was handled through continuous dialogue.⁴ However, most employers also institute special “employee relations programs” to maintain positive employee relations. These include employee fair treatment programs, improving employee relations through improved communications, developing employee recognition/relations programs, and having fair and predictable disciplinary procedures.



Employee Relations Programs for Building and Maintaining Positive Employee Relations

We’ll begin with how to ensure fair treatment.

LEARNING OBJECTIVE 14-2

Discuss at least four methods for managing employee relations.

Ensuring Fair Treatment

Anyone who has suffered unfair treatment at work knows it is demoralizing. It reduces morale, poisons trust, and negatively impacts employee relations and performance.⁵ Employees of abusive supervisors are more likely to quit, and to

fair treatment

Reflects concrete actions, such as “employees are treated with respect,” and “employees are treated fairly.”

report lower job and life satisfaction and higher stress.⁶ The effects on employees of such abusiveness are particularly pronounced where the abusive supervisors seem to have support from higher-ups.⁷ Even when someone just witnesses abusive supervision—for instance, seeing a coworker abused—it triggers adverse reactions including unethical behavior.⁸ At work, **fair treatment** reflects concrete actions such as “employees are treated with respect,” and “employees are treated fairly” (see Figure 14-1).⁹

There are many reasons why managers should be fair. The golden rule is one obvious reason. What may not be so obvious is that unfairness can backfire on the company. For example, victims of unfairness exhibit more workplace deviance, such as theft and sabotage.¹⁰ Victims of unfairness also suffer a range of ill effects including poor health, strain, and psychological conditions.¹¹ Unfairness leads to increased tensions between the employee and his or her family or partner.¹² Abusive supervisors undermine their subordinates’ effectiveness and may prompt them to act destructively.¹³ Witnessing disrespectful behavior in the morning contaminated employees’ perceptions all day, making even innocent interactions seem rude.¹⁴

In terms of employee relations, employees’ perceptions of fairness relate *positively* to employee commitment; job involvement; satisfaction with the company, job, and leader; and organizational citizenship behaviors; and *negatively* to employees’ turnover intention.¹⁵

The employer and its managers are responsible for ensuring that employees are treated fairly and with respect. Techniques for minimizing unfairness discussed in previous chapters include hire competent employees and

FIGURE 14-1 Perceptions of Fair Interpersonal Treatment Scale

Source: “The Perceptions of Their Interpersonal Treatment Scale: Development and Validation of a Measure of Interpersonal Treatment in the Workplace” by Michelle A. Donovan, from *Journal of Applied Psychology* 83, no. 5 (1998).

What is your organization like most of the time? Circle yes if the item describes your organization, No if it does not describe your organization, and ? if you cannot decide.

IN THIS ORGANIZATION:

1. Employees are praised for good work	Yes	?	No
2. Supervisors yell at employees (R)	Yes	?	No
3. Supervisors play favorites (R)	Yes	?	No
4. Employees are trusted	Yes	?	No
5. Employees’ complaints are dealt with effectively	Yes	?	No
6. Employees are treated like children (R)	Yes	?	No
7. Employees are treated with respect	Yes	?	No
8. Employees’ question and problems are responded to quickly	Yes	?	No
9. Employees are lied to (R)	Yes	?	No
10. Employees’ suggestions are ignored (R)	Yes	?	No
11. Supervisors swear at employees (R)	Yes	?	No
12. Employees’ hard work is appreciated	Yes	?	No
13. Supervisors threaten to fire or lay off employees (R)	Yes	?	No
14. Employees are treated fairly	Yes	?	No
15. Coworkers help each other out	Yes	?	No
16. Coworkers argue with each other (R)	Yes	?	No
17. Coworkers put each other down (R)	Yes	?	No
18. Coworkers treat each other with respect	Yes	?	No

Note: R = the item is reverse scored

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

A New HR Strategy at the Foxconn Plant in Shenzhen, China

The phrase *social responsibility* tends to trigger images of charitable contributions, but it actually refers to much more. For example, it refers to the honesty of the company's ads; to the quality of the parts it builds into its products; and to the honesty, ethics, fairness, and "rightness" of its dealings with customers, suppliers, and, of course, employees. The basic question is always whether the company is serving all its constituencies (or "stakeholders") fairly and honestly. Corporate **social responsibility** thus refers to the extent to which companies should and do channel resources toward improving one or more segments of society other than the firm's owners or stockholders.¹⁷

A worker uprising at Apple's Foxconn iPhone assembly plant in Shenzhen, China, shows that workers around the globe want their employers to treat them in a fair and socially responsible manner.

Producing quality products as efficiently as possible was long the strategy at this plant. However, after the uprising over pay and work rules at the Foxconn plant, Apple asked the plant's owner to have the Fair Labor Association (FLA) survey the workers. It found "tons of issues."¹⁸ For example, employees faced "overly strict" product-quality demands: "Every job is tagged to time, there are targets on how many things must be completed within an hour," said Xie Xiaogang, 22, who worked at Foxconn's Shenzhen plant. "In this environment, many people cannot take it."¹⁹ Heavy overtime work and having to work through a holiday week were other examples.

To foster the improved behaviors that the plant's performance required, Hon Hai, the Foxconn plant's owner, tweaked its efficiency-first strategy and changed its plant human resource strategy and practices. It made 284 changes altogether, including raising salaries and cutting mandatory overtime.²⁰ The changes show that fair treatment is a global obligation.

social responsibility

Refers to the extent to which companies should and do channel resources toward improving one or more segments of society other than the firm's owners or stockholders.

supervisors, ensure equitable pay, have fair performance appraisal systems, and have policies requiring fair treatment. Communications systems (such as periodic attitude surveys), and disciplinary appeals programs (both discussed later in this chapter) also reduce unfairness.

RESEARCH INSIGHT A study illustrates the effects of unfairness. College instructors first completed surveys concerning the extent to which they saw their colleges as treating them with *procedural* and *distributive* justice. (**Procedural justice** refers to justice in the allocation of rewards or discipline, in terms of the *procedures* being evenhanded and fair; **distributive justice** refers to a system for distributing rewards and discipline in which *the actual results* or outcomes are evenhanded and fair.) Procedural justice items included, for example, "In general, the department/college's procedures allow for requests for clarification or for additional information about a decision." Distributive justice items included, "I am fairly rewarded considering the responsibilities I have."

Then the instructors completed organizational commitment questionnaires, with items such as "I am proud to tell others that I am part of this department/college." Their students then completed surveys, with items such as "The instructor was sympathetic to my needs," and "The instructor treated me fairly."

The results were impressive. Instructors who perceived high distributive and procedural justice were more committed. Furthermore, these instructors' students reported higher levels of instructor effort, prosocial behaviors, and fairness, and had more positive reactions to their instructors.¹⁶ So in this case, treating some

procedural justice

Refers to just procedures in the allocation of rewards or discipline, in terms of the actual procedures being evenhanded and fair.

distributive justice

Refers to a system of distributing rewards and discipline in which the actual results or outcomes are evenhanded and fair.

professors badly backfired on the university. Treating others fairly produced improved employee commitment and results.

The accompanying Strategic Context feature shows how one employer in China improved the fairness with which it treated employees.

Bullying and Victimization

Some workplace unfairness, such as bullying, is blatant. Bullying and victimization—singling out someone to harass and mistreat—is a serious problem. For example, a survey of 1,000 U.S. employees concluded that about 45% said they'd worked for abusive bosses.²¹ A 2012 ASSOCHAM survey of 2500 Indian employees in reports that 62% of Indian employees work under abusive bosses.²² Victims will often suffer in silence in fear of retribution.²³ The U.S. government (www.stopbullying.gov) says most would agree that bullying involves three things:

- **Imbalance of power.** People who bully use their power to control or harm, and the people being bullied may have a hard time defending themselves.
- **Intent to cause harm.** Actions done by accident are not bullying; the person bullying has a goal to cause harm.
- **Repetition.** Incidents of bullying happen to the same person over and over by the same person or group, and that bullying can take many forms, such as:
 - **Verbal:** name-calling, teasing
 - **Social:** spreading rumors, leaving people out on purpose, breaking up friendships
 - **Physical:** hitting, punching, shoving
 - **Cyberbullying:** using the Internet, mobile phones, or other digital technologies to harm others

Workplace bullying has been studied in the Indian context. A study of 1036 IT/ITES workers from six Indian cities, showed that 44.3% of the respondents had experienced some sort of bullying and 19.7% had faced severe or moderate bullying. Superiors were identified as the predominant source of bullying.²⁴ As per another study covering different sectors, 46% of the surveyed employees were occasionally or frequently bullied at work.²⁵ A study of the responses of the targets points that exit is an actively adopted strategy, but there remains a negative feelings of defeat, victimization, and unfair treatment. This may lead to precipitation of maladaptation and low performance in the future.²⁶ Undoubtedly, the perpetrator is to blame for bullying. However, how some people behave does make them more likely victims.²⁷ These include submissive victims (who seem more anxious, cautious, and sensitive), provocative victims (who show more aggression), and victims low in self-determination (who leave it to others to make decisions for them). Similarly, high performers can earn colleagues' envy and thus suffer victimization.²⁸ Using team-building training, social gatherings, and interteam competition to build team cohesion can reduce envy and victimization.²⁹ Other suggestions include identify bullying through morale surveys, train employees to recognize bullying, and have a code of conduct.³⁰

Beyond fairness, maintaining positive employee relations entails having communications programs that let employees both express their opinions, and let management know if there's a problem. We turn to these programs next.

Improving Employee Relations through Communications Programs

Many employers use communications programs, on the reasonable assumption that employees feel better about their employers when they're "kept in the loop." For example, one university's Web site emphasizes its intention to keep employees in the loop regarding matters like policies and benefits.³¹ This employer uses an *open-door policy* to encourage communication between employees and managers, an *employee handbook* covering basic employment information, as well as abundant *e-mail* and *hard copy notes and memos*.³²

Two-way communication also helps management know what's bothering employees. To paraphrase one writer, soliciting complaints is vital for employers who want to short-circuit inequitable treatment and maintain positive employee relations.³³ Tactics include hosting employee *focus groups*, making available *ombudsman* and *suggestion boxes*, and implementing telephone, messaging, and Web-based *hotlines*. (Some employers use hotline providers to manage their hotlines. A vendor sets up the hotlines for the employer; it also receives the employees' comments, and provides ongoing feedback to the employer about employees' concerns, as well as periodic summaries of comments and trends.) *Exit interviews*, discussed in an earlier chapter, should enable the manager to sample the quality of employee relations and identify potential problem areas.³⁴ Managers also use *open-door policies* and "management by walking around" to informally ask employees "how things are going."

USING ORGANIZATIONAL CLIMATE SURVEYS Similarly, employers use attitude, morale, or *climate surveys* to support employee relations efforts. They use the surveys to "take the pulse" of their employees' attitudes toward a variety of organizational issues including leadership, safety, role clarity, fairness, and pay, and to thereby get a sense of whether their employee relations need improvement. The dividing lines between attitude surveys, satisfaction or morale surveys, and climate surveys are somewhat arbitrary; we can define **organizational climate** as the perceptions employees have of and the meaning that attach to a company's psychological environment, in terms of dimensions such as concern for employee well-being, supervisory behavior, political behaviors, and rewards.³⁵

Many employers use online surveys from firms like Know Your Company (<http://knowyourcompany.com>), focusing on questions such as "Are you proud to work here?"³⁶ Google conducts an annual "Googlegeist" survey of its employees. This survey measures things such as employees' willingness to leave.³⁷ Other surveys are available off the shelf. For instance, one SHRM sample survey has employees use a scale from 1 ("to a very little extent") to 5 ("to a very great extent") to answer survey questions. Questions include, "Overall, how satisfied are you with your supervisor?" "Overall, how satisfied are you with your job?" and "Does doing your job well lead to things like recognition and respect from those you work with?"³⁸

Develop Employee Recognition/Relations Programs

Opportunities for two-way communications improve employee relations, but there are other employee relations programs. Most notable here are the employee recognition and awards programs that we discussed in Chapters 10 and 11, particularly formal company-wide programs such as employee-of-the-month awards. As one example, a trade journal notes how the Murray Supply Co. held a special dinner for all its employees, at which it gave

organizational climate

The perceptions a company's employees share about the firm's psychological environment, for instance, in terms of things like concern for employees' well-being, supervisory behavior, flexibility, appreciation, ethics, empowerment, political behaviors, and rewards.

out special awards for things like safe driving, tenure with the company, and branch employee of the year.³⁹ Employers often distribute such awards with much fanfare at special events such as awards dinners. Bank of Baroda and Eureka Forbes have instituted a variety of recognition programs for its branch- and field-based employees. Some Indian firms invite families of award-winning employees also to the award events. One SHRM survey found that 76% of U.S. organizations surveyed had such employee recognition programs, and another 5% planned to implement one soon.⁴⁰

Recognition and service award programs requires planning.⁴¹ For example, starting a *service award program* requires reviewing employee tenure and setting meaningful award periods (1 year, 5 years, etc.). It also requires setting a budget, selecting awards, having a procedure for monitoring what awards to actually award, having a process for giving awards (such as special dinners or staff meetings), and measuring program success. Similarly, starting a *recognition program* requires developing criteria (such as customer service, and cost savings), creating forms and procedures for submitting and reviewing nominations, selecting awards, and having a process for awarding the awards.

There are online tools for automating the employee recognition process. Employees use these to recognize each other's contributions, for instance through peer recognition, spot awards, e-Cards, and incentives.⁴² For example Globoforce.com organized a "Lift" recognition program for JetBlue. Employees nominate colleagues for their everyday contributions, and for outstanding work.⁴³ The Gujarat Gas Company Limited (GGCL) of Ahmedabad encourages employees to appreciate each other and encourage helpfulness, by writing a colorful and personalized "Sabash Card."

Use Employee Involvement Programs

Employee relations also tend to improve when employees are *involved* with the company in positive ways.

Employers encourage involvement in various ways. Some organize focus groups. A *focus group* is a small sample of employees who are presented with a specific issue and who interactively express their opinions and attitudes on that issue with the group's assigned facilitator. Many employers use *social media* such as the photo-sharing Web site Pinterest to encourage involvement.⁴⁴ One survey found that about half of employers use social media to communicate with employees and to develop a sense of community.⁴⁵ For example, Red Door Interactive used a Pinterest-based project it called "San Diego Office Inspiration." This encouraged employees to contribute interior design and decor ideas for its new offices.⁴⁶

USING EMPLOYEE INVOLVEMENT TEAMS Employers have long used special teams to encourage employee involvement and boost productivity. **Suggestion teams** are temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity. One airline split employees (such as baggage handlers and ground crew) into teams, linking team members via its Web site for brainstorming and voting on ideas.⁴⁷ Semi-permanent **problem-solving teams** research work processes, and develop solutions to work problems.⁴⁸ A **quality circle** is a permanent problem-solving team, more popular in the past than now. They are usually composed of 6 to 12 specially trained employees who meet weekly to solve problems affecting their work area.⁴⁹

suggestion teams

Temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity.

quality circle

A special type of formal problem-solving team, usually composed of 6 to 12 specially trained employees who meet once a week to solve problems affecting their work area.

self-managing/self-directed work team

A small (usually 8 to 10 members) group of carefully selected, trained, and empowered employees who basically run themselves with little or no outside supervision, usually for the purpose of accomplishing a specific task or mission.

The team gets training in problem-analysis techniques (including basic statistics).

A quality circle (QC) is a type of formal problem-solving team, usually composed of 6–12 specially trained employees who meet weekly to solve problems affecting their work area.⁵⁰ The team gets training in problem-analysis techniques (including basic statistics). Then it applies these techniques to solve problems in its work area.⁵¹ Quality circles are popular in Indian organizations, particularly in the manufacturing sector. Companies like Maruti Suzuki India, Honeywell India, Titan Industries, BHEL, etc., have strong QC movements. Introduction of quality circles has helped the state-owned Indira Gandhi Government Medical College and Hospital (IGGMCH) and other government hospitals to tackle routine administrative problems, improve service quality, and employee participation.⁵²

In many facilities, specially trained teams of self-managing employees do their jobs with little or no oversight from supervisory personnel. A **self-managing/self-directed work team** is a small (usually 8 to 10 members) group of carefully selected, trained, and empowered employees who supervise themselves with little or no outside supervision, usually for the purpose of accomplishing a specific mission.⁵³ SMTs differ from traditional teams by the absence of hierarchy. For example, at the GE aircraft engine plant in Durham, North Carolina, U.S., employees work in teams, all of which report to the factory manager.⁵⁴ Teams like these usually function with minimal supervisory oversight, collectively voting on who could join the team, training each other, and handling quality control, for instance. Several years ago, GE expanded its footprint in North Carolina, opening new aircraft facilities. GE partnered with a local community college to do the preliminary training for its new employees.⁵⁵ Indian Pharmaceutical Company, Dr Reddy's introduced SMTs from 2001. The concept has been widely accepted across the company. The benefits, according to Dr Reddy's website "The SMT culture has created an agile and energetic working spirit thus enhancing the productivity, safety and quality of our operations"⁵⁶. Tata Marcopolo also introduced SMTs in its factory in Dharward. According to a study, the management felt that SMT has empowered and motivated shop floor workers to take decisions, and also improved their engagement levels. However, SMT will be successful with proper training and other support systems in place.⁵⁷

USING SUGGESTION SYSTEMS Employee suggestion plans can produce significant savings (and, through involvement and rewards, improve employee relations). For example, one study several years ago of 47 companies in U.S. concluded that the firms had saved more than \$624 million in one year from their suggestion programs; more than 250,000 suggestions were submitted, of which employers adopted over 93,000 ideas.⁵⁸ 54% of the 497 employees surveyed said they made more than 20 suggestions per year, while another 24% said they made between 10 and 20 suggestions per year.⁵⁹ Maruti Suzuki India (MSIL) reported that during 2015–2016, its suggestions scheme resulted in savings of ₹281 crore. Employee suggestions across the hierarchy were in the areas of safety, quality, and productivity improvement, process simplification, energy saving, and cost management.⁶⁰ The accompanying HR as a Profit Center feature provides an example.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

The Cost-Effective Suggestion System⁶¹

A Lockheed Martin unit in Oswego, New York, developed its “Cost-Effectiveness Plus” suggestion program to encourage and recognize employees for streamlining processes. With the Cost-Effectiveness Plus program, employees electronically submit their ideas. These are then evaluated and approved by the local manager and the program’s coordinator (and by higher management when necessary). This program reportedly saves this facility about \$77,000 per implemented idea, or more than \$100 million each year.

Today’s suggestion systems are more sophisticated than the “suggestion boxes” of years ago.⁶² The main improvements are in how the employer formalizes and communicates the suggestion process. The essential elements of an effective employee suggestion system include the following:⁶³

- ✓ Senior staff support
- ✓ A simple, easy process for submitting suggestions
- ✓ A strong process for evaluating and implementing suggestions
- ✓ An effective program for publicizing and communicating the program
- ✓ A program focus on key organizational goals ■

■ HR AND THE GIG ECONOMY: EMPLOYEE RELATIONS AND GIG WORKERS⁶⁴

Employers can take steps to improve employee relations with gig workers.

First understand that gig workers each come to their jobs with their own needs. For example, one researcher interviewed Uber and Lyft drivers. He found that how drivers reacted to things like pay cuts depended on why they were driving. Some were driving mostly for social interaction and to relax from their full-time jobs. (One psychotherapist wasn’t too upset by Uber’s pay cuts. He was just happy to unwind from 40 hours per week of counseling people). On the other hand, drivers who were financially dependent on driving were understandably quite upset by the cuts.

In any case, here are suggestions for improving gig-worker employee relations:

- Don’t treat gig workers like they’re disposable. Even if it’s a short gig, communicate with the worker, and get to know him or her. Recognize their contributions.
- Make signing on as frictionless as possible. Many gig workers are looking for part-time flexible gigs, and want work, not paperwork.
- Research shows that most employers put little time into onboarding gig workers, which is a mistake: even an abbreviated onboarding process is better than none. Give them a brief background on your company and/or project, and make them feel part (albeit an independent-contractor part) of your business.
- It is important legally to make it clear that they are independent contractors. However, to the extent possible, share company news with and seek feedback from your gig workers. Include them in intracompany communications and to the extent possible in company social and educational events.

LEARNING OBJECTIVE 14-3

Explain what is meant by ethical behavior.

The Ethical Organization

People face ethical choices every day. Is it wrong to use a company credit card for personal purchases? Is a ₹5,000 gift to a client unacceptable? Compare your answers by doing the quiz in Figure 14-2.

Most of those reading this book rightfully view themselves as ethical people, so why include ethics in a human resource management book? For three

reasons: First, ethics is not theoretical. Instead, it greases the wheels that make businesses work. Managers who promise raises but don't deliver, salespeople who say "The order's coming" when it's not, production managers who take kickbacks from suppliers—they all corrode the trust that day-to-day business transactions rely on.

Second, it is hard to even imagine an *unethical* company with good employee relations.

The spread of technology into the workshop has raised a variety of new ethical questions and many old ones still linger. Compare your answers with those of other Americans surveyed, on page 479.

Office Technology

1. Is it wrong to use company e-mail for personal reasons?
☐ Yes ☐ No
2. Is it wrong to use office equipment to help your children or spouse do schoolwork?
☐ Yes ☐ No
3. Is it wrong to play computer games on office equipment during the workday?
☐ Yes ☐ No
4. Is it wrong to use office equipment to do Internet shopping?
☐ Yes ☐ No
5. Is it unethical to blame an error you made on a technological glitch?
☐ Yes ☐ No
6. Is it unethical to visit pornographic Web sites using office equipment?
☐ Yes ☐ No

Gifts and Entertainment

7. What's the value at which a gift from a supplier or client becomes troubling?
☐ \$25 ☐ \$50 ☐ \$100
8. Is a \$50 gift to a boss unacceptable?
☐ Yes ☐ No
9. Is a \$50 gift from the boss unacceptable?
☐ Yes ☐ No
10. Of gifts from suppliers: Is it OK to take a \$200 pair of football tickets?
☐ Yes ☐ No
11. Is it OK to take a \$120 pair of theater tickets?
☐ Yes ☐ No
12. Is it OK to take a \$100 holiday food basket?
☐ Yes ☐ No

13. Is it OK to take a \$25 gift certificate?
☐ Yes ☐ No

14. Can you accept a \$75 prize won at a raffle at a supplier's conference?
☐ Yes ☐ No

Truth and Lies

15. Due to on-the-job pressure, have you ever abused or lied about sick days?
☐ Yes ☐ No
16. Due to on-the-job pressure, have you ever taken credit for someone else's work or idea?
☐ Yes ☐ No

FIGURE 14-2 *The Wall Street Journal* Workplace Ethics Quiz

Source: Ethics and Compliance Officer Association, Waltham, MA, and the Ethical Leadership Group, Global Compliance's Expert Advisors, Wilmette, IL. (printed in *The Wall Street Journal*, October 21, 1999, pp. B1–B4). © 1999 by Ethics and Compliance Officer Association. Reprinted by permission. All rights reserved.

Third, many ethical predicaments involve human resource management. For example, one HR manager described how employees at one plant were told to "vent poisonous gas into the air," something that could have killed them.⁶⁵ A survey found that 6 of the 10 most serious ethical work issues—workplace safety, employee records security, employee theft, affirmative action, comparable work, and employee privacy rights—were HR-related.⁶⁶

ethics

The study of standards of conduct and moral judgment; also the standards of right conduct.



Ethics are “the principles of conduct governing an individual or a group”—the principles people use to decide what their conduct should be.⁶⁷ Of course, not all conduct involves ethics.⁶⁸ For example, buying an iPad usually isn’t an ethical decision. Instead, ethical decisions are those rooted in *morality*. Morality refers to society’s accepted standards of behavior. To be more precise, morality (and therefore ethical decisions) always involves the most fundamental questions of what is right and wrong, such as stealing, murder, and how to treat other people.

Ethics and Employee Rights

Societies don’t rely just on employers’ ethics or sense of fairness or morality to ensure that they do what’s right. Societies also institute laws, and procedures for enforcing these laws. These laws lay out what employers can and cannot do, for instance, in terms of discriminating based on race. In so doing, these laws also carve out explicit rights for employees. In India, the Industrial Disputes Act of 1947 allows an individual employee to approach labor court for relief against cases of wrongful termination. Similarly, violation of provisions in the employment contract can be challenged in courts.

Protecting employee rights is thus part and parcel of all the employment laws we discuss in this book. In Indian companies, the employee code of conduct (or certified standing orders in case of workmen in industries) specify employee’s rights. The Tata Code of Conduct is an illustrative example of strong code for a large business group. It is described as a “comprehensive document that serves as the ethical road map for Tata employees and companies, and provides the guidelines by which the group conducts its businesses.” Violation of the Tata code is taken seriously and promptly acted upon.⁶⁹ The bottom line is that although ethics, fairness, and morality help govern how employers treat their employees, the enforceable rights embedded in employment law also govern what employers and employees can do.

What Shapes Ethical Behavior at Work?

Why do people do bad things? It’s complicated. However, one review of over 30 years of ethics research concluded that three factors combine to determine the ethical choices we make.⁷⁰ The authors titled their paper “Bad Apples, Bad Cases, and Bad Barrels.” This title highlighted their conclusion that when

“Bad apples” (people who are inclined to make unethical choices), must deal with

“Bad cases” (ethical situations that are ripe for unethical choices), while working in

“Bad barrels” (company environments that foster or condone unethical choices), . . . then people tend to act unethically.

Here’s a closer look at what they found.

THE PERSON (WHAT MAKES BAD APPLES?) First, because people bring to their jobs their own ideas of what is morally right and wrong, each person must shoulder much of the credit (or blame) for his or her ethical choices.

For example, researchers surveyed CEOs to study their intentions to engage in two questionable practices: soliciting a competitor’s technological secrets, and making illegal payments to foreign officials. The researchers concluded that the CEOs’ personal predispositions more strongly affected

their decisions than did outside pressures or characteristics of their firms.⁷¹ The most principled people, with the highest level of “cognitive moral development,” think through the implications of their decisions and apply ethical principles. They have “moral attentiveness,” and are aware of the ethical dilemma at hand.⁷² How would you rate your own ethics? Figure 14-2 (page 518) presented a short self-assessment survey (you’ll find typical survey takers’ answers on pages 539-540).

WHICH ETHICAL SITUATIONS MAKE FOR ETHICALLY DANGEROUS SITUATIONS (BAD CASES)? It’s not just the person but the situation that’s important. For example, the researchers found that “smaller” ethical dilemmas prompt more bad choices. What determines “small”? Basically, how much harm can befall victims of the choice, or the number of people potentially affected. People seemed more likely to “do the wrong thing” in “less serious” situations, in other words. That obviously doesn’t mean that some people don’t do bad things when huge consequences are involved; it just means that people cut more ethical corners on small things. The problem is that one thing leads to another; people start by doing small bad things and then “graduate” to larger ones.⁷³ And employees who worry about being excluded from a group may support the group’s unethical behavior to stay in the group, compounding a bad situation.⁷⁴

WHAT ARE THE “BAD BARRELS”?—THE OUTSIDE FACTORS THAT MOLD ETHICAL CHOICES Finally, the study found that some companies produce more poisonous social environments (“outside factors” or “barrels”) than do others; these bad environments in turn encourage unethical choices.⁷⁵ For example, companies that promoted an “everyone for him- or herself” culture were more likely to suffer unethical choices. Those that encouraged employees to consider the well-being of everyone had more ethical choices. Most important, companies whose managers put in place “a strong ethical culture that clearly communicates the range of acceptable and unacceptable behavior” suffered fewer unethical decisions.⁷⁶

How Any Manager Can Create an Ethical Environment

REDUCE JOB-RELATED PRESSURES If people did unethical things at work solely for personal gain or because they were “bad people,” it perhaps would be understandable (though inexcusable). The scary thing is that it’s often not personal interests but the pressures of the job. As one former executive said at his trial, “I took these actions, knowing they were wrong, in a misguided attempt to preserve the company to allow it to withstand what I believed were temporary financial difficulties.”⁷⁷

One study illustrates this. It asked employees to list their reasons for taking unethical actions at work.⁷⁸ For most of these employees, “meeting schedule pressures,” “meeting overly aggressive financial or business objectives,” and “helping the company survive” were the three top causes. “Advancing my own career or financial interests” ranked about last.⁷⁹ So first, reducing such “outside” pressures helps head off ethical lapses.

MAKE IT CLEAR WHAT’S OKAY AND NOT OKAY⁸⁰ If your company has an ethics code, make it clear you take it seriously; if there is no code, show by your own actions and words what’s acceptable and not acceptable. Some companies expect employees to decide themselves, by asking one question “How will

you feel if this decision is published under your name, in the front page of a national daily?”

MODEL THE DESIRED BEHAVIOR (“WALK THE TALK”) It’s hard to resist even subtle pressure from a boss. In one report, “the level of misconduct at work dropped dramatically when employees said their supervisors exhibited ethical behavior.”⁸¹ Examples of how supervisors lead subordinates astray include the following:

- Tell them to do “whatever is necessary” to achieve results.
- Look the other way when wrongdoing occurs.
- Take credit for others’ work or shift blame.⁸²

Put another way, managers must walk the talk—not just pay lip service to ethics but behave ethically. Some managers urge employees to apply a quick “ethics test” to evaluate whether what they’re about to do fits the company’s code of conduct. For example, Raytheon Co. asked employees to ask themselves:

- Is the action legal?
- Is it right?
- Who will be affected?
- Does it fit Raytheon’s values?
- How will it “feel” afterward?
- How will it look in the newspaper?
- Will it reflect poorly on the company?⁸³

REINFORCE THE DESIRED BEHAVIOR, NOT THE UNDESIRABLE BEHAVIOR⁸⁴ People tend to do what they get positive reinforcement for, and gradually stop doing what’s not reinforced. Do not inadvertently reinforce unethical behavior (nor punish ethical behavior). Tech-Mahindra recently fired a high ranking executive, who engaged in discriminatory behavior related to sexual orientation of one employee. The action signaled that any behavior was against Mahindra and Mahindra’s policy of respect and inclusion is unacceptable.⁸⁵

TAKE IT SERIOUSLY When students complained of inappropriate behavior by an osteopathic medical school administrator, university administrators (including an attorney) put a letter in his file and got his agreement to change. It transpired that they should have taken stronger action. The moral is, investigate ethics-related accusations vigorously and make sure you correct the problem.

How Human Resource Managers Can Create More Ethical Environments

There are also steps human resource managers can take.

INSTITUTE ETHICS POLICIES AND CODES Employers use ethics policies and codes to signal that their companies are serious about ethics. For example, IBM’s code of ethics says, in part:

Neither you nor any member of your family may, directly or through others, solicit or accept from anyone money, a gift, or any amenity that could influence or could reasonably give the appearance of influencing IBM’s business relationship with that person or organization. If you or your family members receive a gift (including money), even if the gift was unsolicited, you must notify your manager and take

appropriate measures, which may include returning or disposing of what you received.⁸⁶

ENFORCE THE RULES Codifying rules without enforcing them is useless. To paraphrase one study, managers' statements can reduce unethical behavior on the part of employees, but knowing that behavior is actually monitored and enforced has the biggest impact.⁸⁷ *Ethics audits* address topics like conflicts of interest, giving and receiving gifts, and employee discrimination.⁸⁸ One study found that fraud controls such as hotlines, surprise audits, fraud training for employees, and mandatory vacations can each reduce internal theft by around 50%.⁸⁹ Lockheed Martin Corp. has a chief ethics officer.⁹⁰



ENCOURAGE WHISTLEBLOWERS Some companies encourage employees to use hotlines and other means to “blow the whistle” on the company when they discover fraud. Several U.S. laws, including Dodd–Frank, the False Claims Act, the U.S. Financial Institutions Reform, Recovery, and Enforcement Act, and U.S. federal sentencing guidelines address whistleblowing.⁹¹ For Indian companies, SEBI and The Companies Act, 2013 have stipulated whistleblowing provisions. Though a bill to encourage whistleblowing and protect the whistleblowers was proposed in 2011, it's still to become a law. However, many Indian companies have established systems that allow employees to raise issues of ethical violations. In 2017, Indian market regulator SEBI receiving an anonymous complaint from someone at Infosys about the financial and corporate governance irregularities in the company is a case example. It is also tracking possible incidents of retaliation against whistleblowers.⁹²

FOSTER AN ETHICAL CULTURE⁹³ Several years ago Uber faced multiple harassment claims, in part due to the company's uninhibited culture.⁹⁴ **Organizational culture** is the “characteristic values, traditions, and behaviors a company's employees share.” A *value* is a basic belief about what is right or wrong, or about what you should or shouldn't do. (“Honesty is the best policy” would be a value.) Managing people and shaping their behavior depends on shaping the values they use as behavioral guides. For example, if management really believes “honesty is the best policy,” the actions it takes should reflect this value. Managers therefore should think through how to send the right signals to their employees—in other words, create the right culture. Doing so includes:

- **Choose as leaders** people who reflect the culture you're trying to achieve.⁹⁵
- **Clarify expectations.** Make it clear what values you want subordinates to adhere to. For example, IBM's ethics statement shows the company takes ethics seriously.
- **Use signs and symbols.** *Symbolism*—what the manager actually does—ultimately does the most to create and sustain the company's culture. As we said earlier, managers should “walk the talk.” They can't say “don't falsify the financials” and then do so themselves.
- **Provide physical support.** The physical signs of the employer's values—its incentive plan, appraisal system, and disciplinary procedures, for instance—send strong signals regarding what employees should and should not do. For example, do promotions reward ethical behavior or penalize it?⁹⁶

organizational culture

The characteristic values, traditions, and behaviors a company's employees share.

- *Interact frequently* with employees to explain the values that are important.⁹⁷

The accompanying HR Tools feature illustrates ethics management in small businesses.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Small Business Ethics

When people think of unethical corporate behavior, big companies come to mind, because they're usually in the headlines. Yet studies show that small enterprises are prone to the same unethical behavior as big firms.

For example, one study of 20 small to midsize firms found that bribery, corrupt dealings, and a general tone of dishonesty were all “business as usual” at many of these firms.⁹⁸ Some were clever about it. When doing business abroad, one U.S. business kept its hands “clean” by partnering with a local firm. The latter did the dirty work, for example, the local bribes, while the U.S. firm’s managers looked the other way.

Smaller firms should be alert to unethical behavior. They don’t have the resources for ethics officers, ethics hotlines, or the ethics training that big firms have. Furthermore, having an unethical accountant in a billion-dollar firm embezzle \$10 million is a nuisance. Having the bookkeeper of a \$10 million firm abscond with \$1 million could be the end.

Small business owners can take several steps. First, *size up your company’s current ethics-related activities*.⁹⁹ Even a self-audit based on guidelines like those in this chapter (having an ethics code, ethics training, controls to monitor ethical behavior, and so on) are worthwhile. Second, *create a code of conduct* (Googling “code of conduct” reveals thousands of examples), and show you take it seriously. Third, *train your people*. Training needn’t be complicated. For example, one expert suggests having your managers develop scenarios, relevant to your business, illustrating which behaviors are ethical and which are not; then meet to discuss these. Fourth, make it easier to *solicit feedback* from your employees, to report unethical behavior. (“Open door” policies and suggestion boxes are examples.) Finally, *walk the talk*. In a small business, the owner is so visible that employees will take their ethical signals from him or her. ■

HIRE RIGHT The most straightforward way an HR manager can build an ethical organization is to attract and hire ethical people. A study of ethics in Indian organizations based on Tata Steel indicated that ethical problems arise out of conflicting choices. Hence, hiring employees whose values fit to that of the firm’s is very important.¹⁰⁰ Start with recruitment ads that highlight your firm’s commitment to ethics. Then screen carefully. An integrity test “is a specific type of personality test designed to assess an applicant’s tendency to be honest, trustworthy, and dependable.”¹⁰¹ Use interview questions (such as “Have you ever observed someone doing something dishonest at work? What did you do?”).¹⁰² Check backgrounds thoroughly.

Also treat job applicants fairly. “If prospective employees perceive that the hiring process does not treat people fairly, they may assume that ethical behavior is not important in the company.”¹⁰³

What exactly to do? Here:

- Applicants tend to view the *formal procedure* (such as the interview) as fair to the extent that it tests job-related criteria and provides an opportunity to demonstrate competence.
- Applicants expect respect. *Fair interpersonal treatment* reflects things like the propriety of the questions, the politeness of interviewer, and the degree of two-way communication.
- Applicants see a selection system as fair to the extent that the employer provides *useful feedback* about the candidate's own performance.¹⁰⁴

USE ETHICS TRAINING Ethics training is basically mandatory. Since 1991, federal sentencing guidelines have prescribed reduced penalties for employers accused of misconduct who implement codes of conduct and ethics training.¹⁰⁵ In U.S., the Sarbanes–Oxley Act of 2002 makes ethics training even more important. The Indian Companies Act of 2013 mandates impairing training to key employees and directors, including independent/non-executive directors in various aspects of organizational governance.

Ethics training involves showing employees how to recognize ethical dilemmas, how to apply codes of conduct to resolve problems, and how to use personnel activities like discipline in ethical ways.¹⁰⁶ The training should illustrate the moral underpinnings of the ethical choice, and the company's commitment to integrity and ethics. Include participation by top managers to emphasize that commitment.¹⁰⁷

Ethics training is often Internet-based. Online ethics training tools include Business Ethics for Managers from SkillSoft (www.skillsoft.com).¹⁰⁸ A study on ethics conducted in the Indian IT industry shows that the sector uses both formal and informal methods for effective ethics training. Lockheed Martin's annual *Giving Voice to Values* ethics training program is an example.¹⁰⁹ Lockheed Martin's CEO, Marillyn Hewson, first trains her immediate staff. They in turn train their subordinates. The program first reviews Lockheed Martin's business conduct code. It then prepares employees to recognize and react to ethics-laden situations. To do this, trainees review videos of actual ethics cases from the company's Ethics Office. Then they discuss the cases and how to react to them.

USE REWARDS AND DISCIPLINE Employees expect employers to punish unethical conduct and to reward ethical conduct, (including executives', not just underlings').¹¹⁰ Higher education institutes like IIMs and IITs have strong academic ethics policies which results in strong action against faculty and students. In 2018, UGC has published norms to prevent plagiarism and promote academic excellence.¹¹¹

The employer should discipline executives, not just underlings, who misbehave.¹¹²



INSTITUTE EMPLOYEE PRIVACY POLICIES With Facebook and others routinely marketing users' personal information, privacy seems to be going out of style; as one cybersecurity expert said, "surveillance is the business model of the internet."¹¹³

But while some online users willingly share personal information as the price of freely staying in touch, privacy still matters at work.¹¹⁴ Here employee privacy violations include *intrusion* (such as locker room and e-mail surveillance),

publication of private matters, and *disclosure* of medical records and appropriation of an employee's name or likeness for commercial purposes.¹¹⁵ In practice, background checks, monitoring off-duty conduct and lifestyle, drug testing, workplace searches, and workplace monitoring trigger most privacy violations.¹¹⁶ Such activities have legitimate business purposes; however, they can be abused—as when erroneous background information leads to unjust treatment.¹¹⁷



KNOW YOUR EMPLOYMENT LAW

Electronic Monitoring

Electronic Communications Privacy Act (ECPA)

The ECPA is a federal law intended to help restrict interception and monitoring of oral and wire communications.

In the U.S., are two main restrictions on workplace monitoring. One is the **Electronic Communications Privacy Act (ECPA)**. The other are *common-law protections* (protections that evolved from court decisions, for instance, decisions against defaming employees by publicizing highly personal matters about them). The ECPA is a federal law intended to help restrict interception and monitoring of oral and wire communications. (Several U.S. states have similar laws.) It contains two exceptions. The “business purpose exception” permits employers to monitor communications if they can show a legitimate business reason for doing so. The second, “consent exception,” lets employers monitor communications if they have their employees’ consent to do so.¹¹⁸

In India, Section 69 of the Information Technology (IT) Act, 2000, gives power to the government to intercept and monitor messages, though prior approval has to be sought. If an employee suffers loss due to the surveillance, under Section 43A of the IT Act, the employee is entitled for compensation. Under the current privacy laws in India, employers can take normal precautions and monitor workers. However, they should take note of these three point: (1) consent in advance, (2) degree of intrusion, and (3) use of data (purpose limitations) and consequences.

More employers are using fingerprint scanning to verify employee identity.



szefei. Shutterstock

With the Supreme Court of India pronouncing privacy as a fundamental right on August 24, 2017, the issue of privacy has become a matter of discussion in the country. The apex court has also observed that a stringent data protection law has to be made, taking into account the three factors described above.¹¹⁹

Electronic eavesdropping is legal—up to a point. For example, U.S. federal law and most state laws allow employers to monitor employees' phone calls in the ordinary course of business. However, they must stop listening when it becomes clear the conversation is personal. You can also intercept e-mail to protect the property rights of the e-mail provider. Many employees assume that their messages using the company's e-mail system are open to review, but that e-mails they send via the employer's system but using personal e-mail like Gmail aren't. However, that's not necessarily true.

To be safe, employers issue e-mail and online service usage policies. These warn employees that their systems should be used for business only. Employers also have employees sign e-mail and telephone monitoring acknowledgment statements like that in Figure 14-3.

Monitoring raises privacy issues, but can also boost profits. For example, employers routinely use software to monitor what their employees are doing online. When one employer noticed high employee overtime claims, it installed new software, and discovered many employees spent hours daily shopping online instead of working. Computer monitoring usually involves loading software directly onto the device. It then keeps logs of keystrokes, screenshots, and URLs visited by individuals.¹²⁰

FIGURE 14-3 Sample E-Mail Monitoring Acknowledgment Statement

I understand that XYZ Company periodically monitors any e-mail communications created, sent, or retrieved using this company's e-mail system. Therefore, I understand that my e-mail communications may be read by individuals other than the intended recipient. I also understand that XYZ Company periodically monitors telephone communications, for example to improve customer service quality.

Signature

Date

Print Name

Department

A lawyer should review the company's e-mail policy. At a minimum, make it clear that employees should have no expectation of privacy in their e-mail and Internet usage.¹²¹ Also emphasize that all messages sent and received on the employer's e-mail system are company property and not confidential.¹²² Employee monitoring best practices include: don't target a legally protected class or monitor in nonwork areas, do be consistent in how you monitor employees, and get legal advice before installing a monitoring system.¹²³

Videotaped workplace monitoring requires more caution. Continuous video surveillance of employees in an office setting may not be a problem. However, care should be taken that the footage is not misused. A Boston employer had to pay over \$200,000 to five workers it secretly videotaped in an employee locker room, after they sued.¹²⁴

More companies are monitoring in part due to the proliferation of online and smart devices and social media. For example, a thumb drive can carry off huge amounts of corporate data. And, increasingly, disgruntled employees are using their companies' cloud services to hack into and undermine their computer systems.¹²⁵

Monitoring goes beyond work stations and phones. One hospital uses biometric scanners to ensure that employees who clock in really are who they say they are. The Government of India offices use biometric systems like finger scanning to control employees' access to their offices and network information systems. One restaurant monitors most everything waiters do, for instance, tracking every ticket, dish, and drink that they process.¹²⁶ (This makes it easier to track employee theft, but also helps identify conscientious waiters). The British grocer Tesco has some distribution center employees wear armbands that track how quickly employees are unloading and scanning goods.¹²⁷ ■



LEARNING OBJECTIVE 14-4

Explain what is meant by fair disciplinary practices.

Managing Employee Discipline

The purpose of *discipline* is to encourage employees to behave sensibly at work (where *sensible* means adhering to rules and regulations). Discipline is required when an employee violates a rule.¹²⁸

Proper disciplinary procedures are important for several reasons. For one thing, positive employee relations requires trust, and few personnel actions will undermine trust as will arbitrary discipline. Legal concerns are important too. One study surveyed 45 published arbitration awards in which tardiness had triggered discipline and/or discharge. When arbitrators overturned employers' decisions, it was usually due to inadequate disciplinary procedures—for example, the employer failed to clarify what “tardy” meant. Unfair disciplinary procedures can backfire in other ways. For example, it can trigger retaliatory employee misbehavior. And, of course, it is hard to be seen as ethical when disciplinary actions are unfair.¹²⁹

The Three Pillars of Fair Discipline

Disciplining employees is often unavoidable, but any such discipline should be rooted in the need to be fair. Fairness, in a way, means that the principles of natural justice are upheld during the entire process. The manager builds a fair discipline process on three pillars: rules and regulations, a system of progressive penalties, and an appeals process.¹³⁰

RULES AND REGULATIONS An acceptable disciplinary process begins with a set of clear disciplinary rules and regulations. The rules should cover problems such as theft, destruction of company property, drinking on the job, and insubordination. Examples of rules include:

Poor performance is not acceptable. Each employee is expected to perform his or her work properly and efficiently and to meet established standards of quality. For example, this has been aptly exemplified in the section on “Values” in the “Code of Conduct and Ethics” of Infosys, where excellence has been stated as one of the five core values that any employee is expected to instill in themselves.

Alcohol and drugs do not mix with work. The use of either during working hours and reporting for work under the influence of either are both strictly prohibited.

The purpose of the rules is to inform employees ahead of time what is and is not acceptable behavior. Tell employees, preferably in writing, what is not permitted. The employee handbook should contain the rules and regulations.

PROGRESSIVE PENALTIES A system of progressive penalties is the second pillar of effective discipline. Hence, offenses are classified as minor offenses and major offenses in India. The severity of the penalty usually depends on the offense and the number of times it has occurred. For example, most companies issue warnings for the first unexcused lateness. However, for a fourth offense, discharge is the usual disciplinary action.

APPEALS PROCESS Third, the aim of an appeals process is to ensure that supervisors mete out discipline fairly. All employee discipline procedures have an appeal provision, who is generally the CEO. In some cases, the Board of Directors may have a separate committee to hear appeals of disciplinary action. FedEx's *guaranteed fair treatment* multistep program illustrates this. We'll look at it in a moment.

An appeals process is essential but is no panacea. Often employers can mitigate the effects of unfair discipline by catching it during an appeal. However, some supervisory behavior may be impossible to overcome. For example, behaviors that attack the employee's personal and/or social identity are difficult to remedy.¹³¹ Remember that punishment is particularly objectionable when it seems motivated by revenge.¹³²



Diversity Counts: Comparing Males and Females in a Discipline Situation

A well-known study about 20 years ago concluded that when a woman doesn't act the way other men and women expect she should act, they tend to treat her more harshly than they might if a man acted unexpectedly.¹³³

The study involved 360 graduate and undergraduate business school students. They reviewed a labor arbitration case. The case involved two employees, one male and one female, with similar work records and tenure with their employers. Both were discharged for violation of company rules related to alcohol and drugs. The case portrays one worker's behavior as a more serious breach of company rules: The more culpable worker (a male in half the study and a female in the other half) had brought the intoxicant to work. The students had to express their agreement with two alternative approaches (tough or not-so-tough) to settling the dispute that arose after the discharge.

The researchers found bias against the female "employee" by both the male and female students. Both the male and female students recommended harsher treatment for the "culpable" female employee in the case than they did for the "culpable" man. As the researchers conclude, "women, as decision makers, appear to be as willing as men to impose harsher discipline on women than upon men." The Indian law regulates disciplinary action against pregnant women. The Maternity Benefit Act of 1961 places restriction on terminating an expectant woman who is absent from work due to pregnancy (Section 12). ■

How to Discipline an Employee

Even if you're a manager in a company, you may find yourself without clear company guidelines when you have to discipline an employee. An error could

trigger a costly appeal, or even litigation. To help head off errors, fair discipline guidelines would include:¹³⁴

- Make sure the evidence supports the charge of employee wrongdoing.
- Adequately warn the employee of the disciplinary consequences of his or her alleged misconduct. Have the employee sign a form as in Figure 14-4 or issue a formal letter and take acknowledgment of receipt and understanding.
- The rule that allegedly was violated should be “reasonably related” to the facility’s efficient and safe operation or reputation and code of ethics.
- Objectively investigate the matter before disciplining. An investigation officer (IO) should be appointed for the purpose.
- The investigation should produce substantial evidence of misconduct.
- Apply applicable rules, orders, or penalties *without discrimination*.
- Follow principles of natural justice or due process while dealing with disciplinary action. Most basically, due process means that anyone accused or suspected deserves to have his or her case reviewed through a fair

FIGURE 14-4 Report of Employee Discipline

Apex Telecommunications Corporation	
Report of Disciplinary Action and Warning	
Employee's Name _____	
Employee's Department _____	
Date of Misconduct _____	Today's Date _____
Description of incident and misconduct (including witnesses, if any) _____	

Witnesses to incident _____	

If the misconduct violated an Apex Co. policy or rule, state the policy or rule _____	

Employee's explanation for misconduct, if any _____	

Disciplinary action taken, if any _____	

The employee was warned today that if misconduct such as this reoccurs at any time during the next _____ weeks, he or she may be subject to the following disciplinary action _____	

_____ Supervisor's signature	_____ Employee's signature
_____ Print name	_____ Print name

process. For example, did the person have a chance to defend himself or herself? In case of blue collared workers or unionized workers, the accused is allowed to get help of a friend/union leader to help in defending the case. Was there an appeals process? To ensure that due process is fair, the concerned individuals should not be part of the decision making process or be allowed to influence the decisions.

- Maintain the employee's right to support counsel. For example, all union employees generally have the right to bring a union representative to a disciplinary inquiry. Generally, involvement of an external resource person to defend the case is discouraged.
- Don't rob your subordinate of his or her dignity, for instance by disciplining in public.
- Listen to what the person has to say.
- Remember that the burden of proof is on you. In a democratic society, a person is considered innocent until proven guilty.
- Get the facts. Don't base your decision on hearsay evidence or on your general impression.
- Don't act while angry.

Discipline without Punishment

Traditional discipline processes have two main drawbacks. First, no one likes being punished. Second, punishment tends to gain short-term compliance, but not long-term cooperation.

Discipline without punishment (or alternative or nonpunitive discipline) aims to avoid these drawbacks by reducing the punitive nature of the discipline. Steps include:¹³⁵

1. **Issue an oral reminder for a first infraction.** Have a private discussion with the employee.
2. **Should another incident arise within 6 weeks, issue a formal written reminder, and place a copy in the employee's personnel file.** Also, hold a second private discussion with the employee.
3. **Give a paid, one-day "decision-making leave."** If another incident occurs in the next 6 weeks or so, tell the employee to take a 1-day leave with pay, and to consider whether he or she wants to abide by the rules. When the employee returns to work, he or she meets with you and gives you a decision.
4. **If no further incidents occur in the next year or so, purge the 1-day paid suspension from the person's file.** If the behavior is repeated, the next step is dismissal.

The process would not apply to exceptional circumstances. Criminal behavior or in-plant fighting might be grounds for immediate dismissal, for instance. Delhi Metro Rail Corporation (DMRC) has implemented positive discipline successfully. The approach, which flagged negative behaviors and involved counseling and training, before formally warning the employee allowed employees reflect on behaviors and change. Simultaneously good behaviors (like helping to restore a lost child to parents) were rewarded with positive reward points.¹³⁶



LEARNING OBJECTIVE 14-5

Answer the question, “How do companies become ‘Best Companies to Work For’?”

Employee Engagement Guide for Managers

How Companies Become “Best Companies to Work For”

We began this chapter by noting that some companies are better to work for than are others, and we therefore focused on programs managers use to cultivate the positive employee relations that contribute to being a best place to work. This final section zeroes in on three companies that are known in part for actually being best places to work.

The “Best Companies to Work For”

Each year, several organizations publish “Best Companies to Work For” lists, the most notable of which is probably “*Fortune Magazine’s 100 Best Companies to Work For*®.”¹³⁷ Based on an extensive multinational survey of employees by the Great Place to Work® Institute (www.greatplacetowork.com), the survey seeks to identify the best companies to work for, based on how the employees working in them actually feel about working there. The Great Place to Work Institute defines a great workplace as one where employees trust the people they work for, have pride in the work they do, and enjoy the people they work with.¹³⁸ They say that these companies “have the highest levels of trust, strongest evidence of employee engagement and demonstrate the best applied management practices and programs” as defined by the institute’s proprietary models.¹³⁹

SAS: Great Benefits, Trust, and Work–Life Balance

SAS, headquartered in Cary, North Carolina, is a leader in providing business analytics software and services to companies that include 90 of the top 100 companies on the *Fortune* global 500 list.¹⁴⁰ Founded in the 1970s, the company is privately owned and has long been known for the quality of its benefits and for the support it provides for its employees’ work–life balance. It has annual revenues of over \$2.3 billion, and a worldwide workforce of over 13,000 people, about half at the company’s North Carolina campus.

When people think about employee relations at SAS, the first thing that comes to mind is probably its employee benefits, which are extraordinary. To paraphrase its CEO, the firm’s employees are happier and healthier because SAS’s extensive benefits remove unnecessary distractions and stress.¹⁴¹ They include (for example) 3 to 4 weeks per year company-paid vacations, paid sick days, flexible work schedules, 11 paid holidays, competitive pay, company-paid life insurance and accidental death insurance, retirement plans, an on-site fitness center, employee assistance programs, domestic partner benefits, and subsidized on-site child-care centers in Cary.¹⁴²

In a larger sense, such benefits symbolize SAS’s approach to employee relations. While many employers talk about “putting their employees first,” SAS puts its money where its mouth is. For example, late in 2008, as the recession was gaining speed, most employers were laying off employees. SAS’s founder and CEO, Dr. Jim Goodnight, held a special global webcast to announce to employees that none of SAS’s 13,000 worldwide employees would lose their jobs.¹⁴³ They have reportedly never laid off an employee.¹⁴⁴ SAS goes to great lengths to foster trust in other ways, for instance by giving employees abundant freedom in the hours they work. They also have the Great Place to Work Institute survey employees on important characteristics of trust including open communication, respect, and career paths.¹⁴⁵

What does all this do for SAS? As one long-term employee put it, “I just can’t imagine leaving SAS, and I felt that way for a very long time . . . if somebody offered to double my salary, I wouldn’t even think about it.”¹⁴⁶ Employee turnover, about 20% in software companies, is about 3% at SAS, which highlights another important facet of the SAS benefits programs.¹⁴⁷ One expert estimates that the lower turnover alone saves SAS \$60 million to \$80 million a year. As another example, letting employees visit on-campus health professionals (as SAS does) cuts hours out of the average employee’s time away from work.¹⁴⁸ And, of course, the effect on engagement, morale, and productivity may be priceless.

Google: Happiness and People Analytics

When Google founders Larry Page and Sergey Brin began building Google, they wanted to make it a great place to work, so they turned to SAS. They met with SAS executives and sent a team there to better understand what made SAS consistently a “Best Company to Work For.”¹⁴⁹

It’s therefore not surprising that Google is one of the few employers whose employee benefits equal or exceed those at SAS. In addition to things like health-care benefits and flexible work hours (and the possibility of making millions on stock options), its benefits include on-site dry cleaners, bowling alleys, cafés, transportation to and from campus, and nap pods.¹⁵⁰ As Google puts it, “It’s all about removing barriers so Googlers can focus on the things they love, both inside and outside of work. We’re constantly searching for unique ways to improve the health and happiness of our Googlers.”¹⁵¹

Aside from its benefits, what sets Google apart is the scientific way it decides how to “improve the health and happiness” of Google employees. At Google, maintaining positive employee relations is highly analytical (one writer calls Google “The Happiness Machine”).¹⁵² Google calls its human resource department, “People Operations” (employees call it “POPS”). It hired social scientists to create what they call the People & Innovation Lab, with a Google “people analytics team” charged with finding out how to make Googlers happy.¹⁵³ Google “monitors its employees’ well-being to a degree that can seem absurd to those who work outside [Google’s headquarters in] Mountain View [California].”¹⁵⁴ The social scientists run experiments, for instance, to determine if successful middle managers have certain skills, and what’s the best way to remind people to contribute to their 401(k)s.¹⁵⁵ In one example, when the analytics team found that women staffers’ turnover was too high, they concluded that new mothers were leaving at twice Google’s average departure rate.¹⁵⁶ This led to a redesigned maternity leave plan including 5 months off at full pay and full benefits. The new plan cut female Googler turnover in half.¹⁵⁷ To support its analytical approach, Google “solicits employee feedback on everything from how they prefer to be compensated, to the design of new bicycles used throughout the expansive headquarters campus.”¹⁵⁸ So, it’s little wonder why Googlers are happy.

FedEx: Guaranteed Fair Treatment

FedEx has been one of the “*Fortune* Magazine’s 100 Best Companies to Work For” for 12 of the past 15 years. Several things—excellent benefits, competitive salaries, and (as we discussed in Chapter 5) a focus on promoting from within help to explain this; however, it may be FedEx’s emphasis on building trust through communications that most sets it apart.

SURVEY FEEDBACK ACTION (SFA) The FedEx survey feedback action (SFA) program is one example. SFA includes an anonymous survey that allows employees to express feelings about the company and their managers, and to some extent about service, pay, and benefits. Each manager then has an opportunity to use the results to help design a blueprint for improving workgroup engagement and commitment.¹⁵⁹

SFA has three phases. First, the survey itself is a standard, anonymous questionnaire given each year to every employee. The questions are designed to gather information about what helps and hinders employees in their work environment. Sample items include: “I can tell my manager what I think” and “My manager tells me what was expected.” A workgroup’s survey results are compiled and sent anonymously to the manager.

The second phase is a feedback session between the manager and his or her workgroup. The goal here is to identify specific concerns or problems, examine causes for these problems, and devise action plans to correct the problems.

The feedback meeting should lead to a third, “action plan” phase. This produces a list of actions that the manager will take to address employees’ concerns and boost results. It includes: What is the concern? What’s your analysis? What’s the cause? and What should be done?

THE FEDEX GUARANTEED FAIR TREATMENT PROCESS FedEx’s Guaranteed Fair Treatment Process (GFTP) goes beyond most grievance procedures in several ways, perhaps most notably in that an appeal can go all the way to FedEx’s top executives. The effect is twofold: Complaints don’t get a chance to fester, and managers think twice before acting unfairly.¹⁶⁰ GFTP is available to all permanent FedEx employees. It covers concerns regarding matters such as disputed performance reviews, disciplinary actions, and terminations.¹⁶¹

Employees use Guaranteed Fair Treatment Process packets, available from the HR department, to file GFTP complaints. These include a fact sheet listing the complainant’s name and work history; a GFTP tracking sheet to track the complaint at each step; management’s rationale (for instance, in terms of applicable policies and procedures); a write-up from the HR department; space for key documents (termination letters, and so on); and space for backup information including witness statements. The employee must try to resolve the problem with his or her supervisor before filing a GFTP appeal.

GFTP contains three steps.¹⁶² In step one, *management review*, the complainant submits a written complaint to a manager, senior manager, or managing director, within seven calendar days of the occurrence of the eligible issue. Then the manager, senior manager, and managing director of the employee’s group review all relevant information; hold a telephone conference and/or meeting with the complainant; make a decision to either uphold, modify, or overturn management action; and communicate their decision in writing to the complainant.

If turned down in step one, then in step two, *officer complaint*, the complainant submits a written complaint to an officer (VP or senior vice president) of the division within 7 calendar days of the step one decision.

Finally (if necessary), in step three, *executive appeals review*, the complainant submits a written complaint within 7 calendar days of the step two decision to the employee relations department. This department investigates and prepares a GFTP case file for the appeals board executive review. The appeals board—the CEO, the COO, the chief personnel officer, and senior

vice presidents—then reviews all relevant information and makes a decision to either uphold, overturn, or initiate a board of review or to take other appropriate action; the appeals board’s decision is final.

A “Best Company” Human Resource Philosophy?

SAS, Google, and FedEx are different from each other, and from other companies, so there’s no guarantee that what works for them will work for other firms. For example, SAS is privately owned. Its owners can therefore more easily absorb the short-term fluctuations in profits that great benefits and no layoffs engender than can most publicly traded companies. Google has grown fast through a series of smart strategic moves, and, when the economy turns down, its managers generally still have to focus more on retaining great employees than on laying them off. FedEx, still a “Best Company to Work For,” has run into some labor relations problems recently, for instance, from drivers who don’t want to be independent contractors.

However, there are several things that any manager intent on building positive employee relations can learn from studying any of these three companies. For example, their managers work hard to cultivate trust and to ensure—for instance, by monitoring employees’ attitudes and by instituting open-door and guaranteed fair treatment—type grievance processes—that employees are treated fairly. And, in numerous ways (such as in their recognition programs, involvement programs, ethical standards, benefits, and climate surveys and other two-way communications programs), they all exhibit a deep and evident respect for their employees and to “putting employees first.”

But perhaps the single most important thing a manager can glean from these three companies is the human resource philosophy on which they built their human resource management practices. In Chapter 1, we said that people’s actions are always based in part on the basic assumptions they make, and that this is especially true in regard to human resource management. The basic assumptions you make about people—Can they be trusted? Do they dislike work? Why do they act as they do? How should they be treated?—together comprise your philosophy of human resource management. And every personnel decision you make—the people you hire, the training you provide, your leadership style, and the like—reflects (for better or worse) this basic philosophy.

One of the things molding your own philosophy is that of your organization’s top management. While it may or may not be stated, it is usually communicated by their actions and permeates every level and department. Google’s founders want their employees to be happy, and they’ve worked since Google’s founding to make sure that they are. FedEx founder and CEO Frederick Smith is famous for (among many other things) his P-S-P mantra, namely that when you treat your People well they will provide great Service, and Profits will follow.¹⁶³ Similarly, the founder and CEO of SAS has said, “We’ve worked hard to create a corporate culture that is based on trust between our employees and the company . . . a culture that rewards innovation, encourages employees to try new things and yet doesn’t penalize them for taking chances, and a culture that cares about employees’ personal and professional growth.”¹⁶⁴ Such HR philosophies may well be the “magic sauce” that explains why great companies to work for are great.

Chapter Review

Chapter Section Summaries

- 14-1. **Employee relations** is the activity that involves establishing and maintaining the positive employee–employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.
- 14-2. Managers and HR management use **programs to develop positive employee relations**. Unfair treatment reduces morale, increases stress, and has negative effects on employees and should be weeded out. Managers also use communications programs, recognition programs, and employee involvement programs to build positive employee relations.
- 14-3. **Ethics** refers to the principles of conduct governing an individual or a group, and specifically to the standards you use to decide what your conduct should be. Numerous factors shape ethical behavior at work. These include individual factors, organizational factors, the boss's influence, ethics policies and codes, and the organization's culture. HR management can influence ethical behavior. Having a fair and open selection process, establishing special ethics training programs, and rewarding (or disciplining) ethical (or unethical) work-related behavior are some examples.
- 14-4. A fair and just **discipline** process is based on rules and regulations, a system of progressive penalties, and an appeals process. A number of discipline guidelines are important, including discipline should be in line with the way management usually responds to similar incidents, management must adequately investigate the matter, and do not rob a subordinate of his or her dignity.
- 14-5. There are several things that any manager intent on building positive employee relations and **employee engagement** can draw from studying “Best Companies to Work For” such as SAS, Google, and FedEx. Their managers cultivate trust and ensure that employees are treated fairly. They all exhibit a deep and evident respect for their employees and to “putting employees first.” Their human resource philosophy emphasizes trust, respect, and caring about their employees' personal and professional growth.

Discussion Questions

- 14-1. Explain how you would ensure fairness in disciplining, discussing particularly the prerequisites to disciplining, disciplining guidelines, and the discipline without punishment approach.
- 14-2. Why is it important in our litigious society to manage electronic monitoring properly?
- 14-3. Provide two examples of behaviors that would probably be unethical but legal, and three that would probably be illegal but ethical.
- 14-4. List 10 things your college or university does to encourage ethical behavior by students and/or faculty.
- 14-5. You need to select a nanny for your or a relative's child, and want someone ethical. What would you do to help ensure you ended up hiring someone ethical?
- 14-6. You believe your coworker is being bullied. How would you verify this, and what would you do about it if it is true?
- 14-7. Define *employee relations*, and discuss at least four methods for managing it.

Individual and Group Activities

- 14-8. Working individually or in groups, interview managers or administrators at your employer or college in order to determine the extent to which the employer or college endeavors to build two-way communication, and the specific types of programs used. Do the managers think they are effective? What do the employees (or faculty members) think of the programs in use at the employer or college?
- 14-9. Working individually or in groups, obtain copies of the student handbook for your college and determine to what extent there is a formal process through which students can air grievances. Based on your contacts with other students, has it been an effective grievance process? Why or why not?
- 14-10. Working individually or in groups, determine the nature of the academic discipline process in your college. Do you think it is effective? Based on what you read in this chapter, would you recommend any modifications?
- 14-11. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam



questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

- 14-12. In a research study at Ohio State University, a professor found that even honest people, left to their own devices, would steal from their employers.¹⁶⁵ In this study, the researchers gave financial services workers the opportunity to steal a small amount of money after participating in an after-work project for which the pay was inadequate. Would the employees steal to make up for the underpayment? In most cases, yes. Employees who scored low on an honesty test stole whether or not their office had an ethics program that said stealing from the company was illegal. Employees who scored high on the honesty test also stole, but only if their office did not have such an employee ethics program—the “honest” people didn’t steal if there was an ethics policy.

Individually or in groups, answer these questions: Do you think findings like these are generalizable? In other words, would they apply across the board to employees in other types of companies and situations? If your answer is yes, what do you think this implies about the need for and wisdom of having an ethics program?

Experiential Exercise

Discipline or Not?

Written and copyrighted by Gary Dessler, PhD. Adapted by Prof Biju Varkkey.

Purpose: The purpose of this exercise is to provide you with some experience in analyzing and handling an actual disciplinary action situation.

Required Understanding: Students should be thoroughly familiar with the facts of the following incident, titled “Botched Batch.” **Do not read the**

“award” or “discussion” sections until after the groups have completed their deliberations.

How to Set Up the Exercise/Instructions: Divide the class into groups of four or five students. Each group should take the appellate officers point of view and assume that they are to analyze the case and make the decision. Review the case again at this point, but please do not read the award and discussion sections.

Each group should answer the following questions:

- 14-13.** Based on what you read in this chapter, including all relevant guidelines, what would your decision be if you were the authority who has to decide on the appeal? Why?
- 14-14.** Do you think that after their experience in this arbitration the parties involved will be more or less inclined to settle grievances by themselves without resorting to making an appeal?

Botched Batch:

Facts: A computer department employee made an entry error that botched an entire run of computer reports. Efforts to rectify the situation produced a second set of improperly run reports. Because of the series of errors, the employer incurred extra costs of ₹200,000, plus a weekend of overtime work by other computer department staffers. Management suspended the employee for 3 days for negligence, and revoked a promotion for which the employee had previously been approved.

Protesting the discipline, the employee stressed that she had attempted to correct her error in the early stages of the run by notifying the manager of computer operations department of her mistake. Maintaining that the resulting string of errors could have been avoided if the manager had followed up on her report and stopped the initial run, the employee argued that she had been treated unfairly because the manager had not been disciplined even though he compounded the problem, whereas she was severely punished. Moreover, citing her “impeccable” work record and management’s acknowledgment that she had always been a “model employee,” the employee insisted that the denial of her previously approved promotion was “unconscionable.”

*(Please do **not** read beyond this point until after you have answered the two questions.)*

Award: The appeal authority upholds the 3-day suspension, but decides that the promotion should be restored.

Discussion: “There is no question,” the appellate authority notes, that the employee’s negligent act “set in motion the train of events that resulted in running two complete sets of reports reflecting improper information.” Stressing that the employer incurred substantial cost because of the error, the report cites “unchallenged” testimony that management had commonly issued 3-day suspensions for similar infractions in the past. Thus, the appellate authority decides, the employer acted with just cause in meting out an “evenhanded” punishment for the negligence.

Turning to the denial of the already approved promotion, the appellate authority says that this action should be viewed “in the same light as a demotion for disciplinary reasons.” In such cases, management’s decision normally is based on a pattern of unsatisfactory behavior, an employee’s inability to perform, or similar grounds. Observing that management had never before reversed a promotion as part of a disciplinary action, the appellate authority says that by tacking on the denial of the promotion in this case, the employer substantially varied its disciplinary policy from its past practice. Because this action on management’s part was not “evenhanded,” the arbitrator rules, the promotion should be restored.¹⁶⁶

Application Case

Enron, Ethics, and Organizational Culture

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For many people, a company called Enron Corp. still ranks as one of history’s classic examples of ethics run amok. During the 1990s and early 2000s, Enron was in the business of wholesaling natural gas and electricity. Enron made its money as the intermediary (wholesaler) between suppliers and customers. Without getting into all the details, the nature of Enron’s business—and the fact that Enron didn’t actually own the assets—meant that its profit statements and balance sheets listing the firm’s assets and liabilities were unusually difficult to understand.

It turned out that the lack of accounting transparency enabled the company’s managers to make Enron’s financial performance look much better than it actually was. Outside experts began questioning Enron’s financial statements in 2001. In fairly short order, Enron collapsed, and courts convicted several of its top executives of things like manipulating Enron’s reported assets and profitability. Many investors (including former Enron employees) lost all or most of their investments in Enron. In Enron’s case, this breakdown is perhaps more perplexing than usual. As one writer said,

Enron had all the elements usually found in comprehensive ethics and compliance programs: a code of ethics, a reporting system, as well as a training video on vision and values led by [the company’s top executives].¹⁶⁷

Experts subsequently put forth many explanations for how a company that was apparently so ethical outwardly could actually have been making so many bad ethical decisions without other managers (and the board of directors) noticing. The explanations ranged from a “deliberate concealment of information by officers,” to more psychological explanations (such as employees not wanting to contradict their bosses) and the “surprising role of irrationality in decision-making.”¹⁶⁸

But perhaps the most persuasive explanation of how an apparently ethical company could go so wrong concerns organizational culture. The reasoning here is that it's not the rules but what employees feel they should do that determines ethical behavior. For example (speaking in general, not specifically about Enron), the executive director of the Ethics Officer Association put it this way:

We're a legalistic society, and we've created a lot of laws. We assume that if you just knew what those laws meant that you would behave properly. Well, guess what? You can't write enough laws to tell us what to do at all times every day of the week in every part of

the world. We've got to develop the critical thinking and critical reasoning skills of our people because most of the ethical issues that we deal with are in the ethical gray areas.

Questions

- 14-15. Based on what you read in this chapter, summarize in one page or less how you would explain Enron's ethical meltdown.
- 14-16. It is said that when one securities analyst tried to confront Enron's CEO about the firm's unusual accounting statements, the CEO publicly used vulgar language to describe the analyst, and that Enron employees subsequently thought doing so was humorous. If true, what does that say about Enron's ethical culture?
- 14-17. This case and chapter had something to say about how organizational culture influences ethical behavior. What role do you think culture played at Enron? Give five specific examples of things Enron's CEO could have done to create a healthy ethical culture.

Continuing Case

Carter Cleaning Company

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Guaranteeing Fair Treatment

Being in the laundry and cleaning business, the Carters feel strongly about not allowing employees to smoke, eat, or drink in their stores. Jennifer was therefore surprised to walk into a store and find two employees eating lunch at the front counter. There was a large pizza in its box, and the two of them were sipping colas and eating slices of pizza and submarine sandwiches off paper plates. Not only did it look messy, but there were grease and soda spills on the counter, and the store smelled from onions and pepperoni, even with the exhaust fan pulling air out through the roof. In addition to being a turnoff to customers, the mess on

the counter meant that a customer's order might actually become soiled in the store.

Although this was a serious matter, Jennifer didn't feel that what the counter people were doing was grounds for dismissal (partly because the store manager had apparently condoned their actions). It seemed to her that the matter called for more than just a warning but less than dismissal.

Questions

- 14-18. What would you do if you were Jennifer, and why?
- 14-19. Should a disciplinary system be established at Carter Cleaning?
- 14-20. If so, what should it cover? How would you suggest it deal with a situation such as the one with the errant counter people?
- 14-21. How would you deal with the store manager?

Translating Strategy into HR Policies and Practices Case[§]

Improving Performance at the Hotel Paris

The Hotel Paris's New Ethics, Justice, and Fair Treatment Process

The Hotel Paris's competitive strategy is “To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability.” HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy, by eliciting the required employee behaviors and competencies.

As the head of HR for the Hotel Paris, Lisa Cruz was especially concerned about her company maintaining the highest ethical standards. Her concerns were twofold. First, there are, in any single hotel each day, at least a dozen people (including housekeepers, front-desk clerks, security guards, and so on) with easy access to guests' rooms, and to their personal belongings. Guests—many younger, and many unwary—are continually walking the halls unprotected. So, in a service company like this, there is simply no margin for ethical errors.

But she was concerned about ethics for a second reason. She knew that employees do not like being treated unfairly, and that unfairness in any form could manifest itself in low morale

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and in diminished performance. She wondered if her employees' low morale and engagement—as measured by her firm's attitude surveys—stemmed, in part, from what they perceived as unjust treatment. Lisa therefore turned to the task of assessing and redesigning the Hotel Paris's ethics, justice, and fair treatment practices.

When she sat with the CFO to discuss her proposal for the Hotel Paris's fairness, justice, and ethics system, Lisa came armed with some research. In 2003, the *Journal of Applied Psychology* published a study that showed how improving the level of interpersonal and procedural justice in a service company can lead to improved employee attitudes and performance and thus to improved hotel performance.¹⁶⁹ And the study was done in a hotel chain.

In this study, the researchers collected employee survey data from a hotel chain's 111 different hotels in the United States and Canada. The employee services department of this hotel chain obtained completed surveys from 8,832 of the hotel's employees. The researchers also obtained data on employee turnover as well as on the employees' commitment, employees' intentions to remain with the organization, and guest satisfaction.

Clearly, having fair and just procedures in place affected these hotels' employee morale and behavior, and thus company performance—they could even measure the links. For example, procedural justice and interpersonal justice were related to increased levels of employees' satisfaction with supervision.

For Lisa and the CFO, these results supported, in a measurably defensible way, the idea that spending the money required to improve procedural and interpersonal justice would likely improve employee attitudes and behaviors (employee commitment, discretionary service behavior, and employee turnover), and, thereby, improve guest satisfaction and company performance.

Lisa and her HR team took steps to institute new ethics, justice, and fair treatment practices at the Hotel Paris. Working with the company's general counsel, they produced and presented to the CEO a new Hotel Paris code of ethics, as well as a more complete set of ethical guidelines. These now appear on the Hotel Paris's careers Web site link, and are part of each new employee's

orientation packet. They contracted with a vendor to provide a customized, Web-based ethics training program, and made it clear that the first employees to participate in it were the company's top executives.

Lisa and her team then proceeded methodically through the company's entire HR process, starting with recruitment and selection. The selection process now includes an honesty test. New guidelines ensure an open and fair performance appraisal process. The team completely revamped the hotel's disciplinary process. They instituted a new appeals process that included appeals to each hotel's manager, and then to Lisa Cruz, and finally to a top management executive appeals committee. They instituted a new discipline without punishment system.

After 6 months of operating under the new system, several changes are evident. Surveys Lisa took before the new program, and now, indicate a significant upward movement in the employees' perceptions of "consistent and equitable treatment of all employees." Grievances are down by 80%, 95% of employees are able to quote the ethics code, employee morale and commitment are up, and, in general, employee service-type behaviors (such as greeting guests in a friendly manner) have increased, too. Lisa and the CFO are pleased with the new system, and are optimistic it will also help to improve customer service satisfaction.

Questions

- 14-22. Based on what you learned in this chapter of Dessler *Human Resource Management*, what do you think of the adequacy and effectiveness of the steps Lisa has taken so far?
- 14-23. List three more specific steps Hotel Paris should take with respect to each individual human resource function (selection, training, and so on) to improve the level of ethics in the company.
- 14-24. Based on what you learned in this chapter, write a short (less than one page) explanation Lisa can use to sell to top management the need to further improve the hotel chain's fairness and justice processes.

Key Terms

employee relations, 510
fair treatment, 511
social responsibility, 512
procedural justice, 512

distributive justice, 512
organizational climate, 514
suggestion teams, 515
problem-solving teams, 515

quality circle, 516
self-managing/self-directed
work team, 516
ethics, 519

organizational culture, 522
Informational Technology
Act, 2000, 525

Ethics Quiz Answers

Quiz is on page 461.

1. 34% said personal e-mail on company computers is wrong.
2. 37% said using office equipment for schoolwork is wrong.
3. 49% said playing computer games at work is wrong.
4. 54% said Internet shopping at work is wrong.
5. 61% said it's unethical to blame your error on technology.
6. 87% said it's unethical to visit pornographic sites at work.

7. 33% said \$25 is the amount at which a gift from a supplier or client becomes troubling, while 33% said \$50, and 33% said \$100.
8. 35% said a \$50 gift to the boss is unacceptable.
9. 12% said a \$50 gift from the boss is unacceptable.
10. 70% said it's unacceptable to take the \$200 football tickets.
11. 70% said it's unacceptable to take the \$120 theater tickets.
12. 35% said it's unacceptable to take the \$100 food basket.
13. 45% said it's unacceptable to take the \$25 gift certificate.
14. 40% said it's unacceptable to take the \$75 raffle prize.
15. 11% reported they lie about sick days.
16. 4% reported they take credit for the work or ideas of others.

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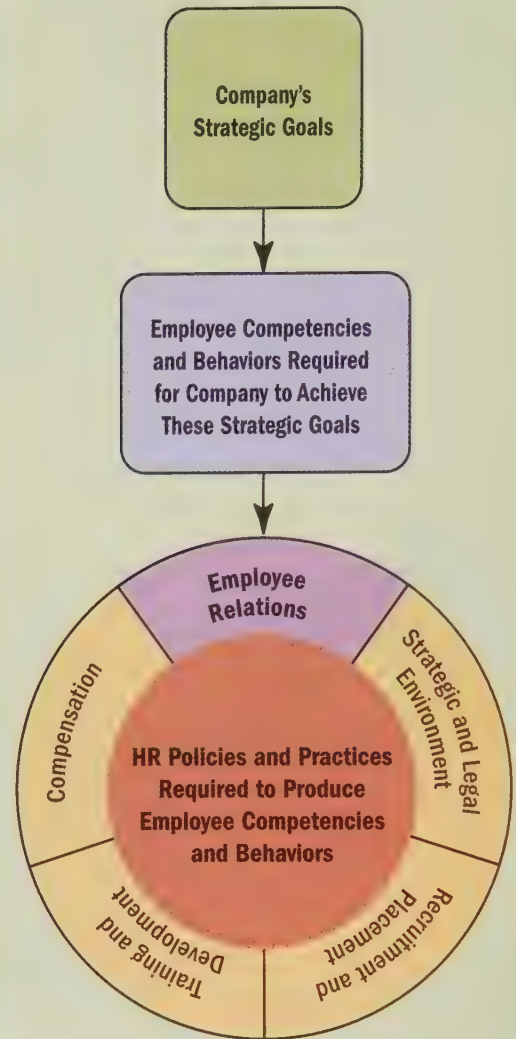
Labor Relations and Collective Bargaining

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 15-1** Present a brief history of labor movement.
- 15-2** Give five examples of unfair union practices and of unfair employer practices in labor law.
- 15-3** Illustrate with examples bargaining that is not in good faith.
- 15-4** Develop a grievance procedure.
- 15-5** Give an example of cooperative labor relations.

During early June 2019, around 450 workers of Tata Motors plant in Sanand, Gujarat with an annual production capacity of 200,000 cars boycotted meals in the company canteen, as a form of symbolic protest.¹ They were in negotiations with the management for a Long term Settlement (LTS) since 18 months, and wanted to press their demands. Parity with other Tata Motor plants was a major point of difference. In 2016 September, a flash strike by 300 employees over the suspension of a few employees was settled and normalcy was restored. Pressure was on both parties, before the next round of negotiation meetings on June 8. We will see how the issue was resolved.



WHERE ARE WE NOW . . .

Chapter 14 focused on employee relations, ethics, and justice—important issues in determining employees' tendencies to join unions. The main purpose of this chapter is to help you deal effectively with unions and grievances. After briefly discussing the **History of the American and Indian Labor Movement**, we describe the **Basic Labor Law**, including unfair labor practices. We explain labor negotiations, including the union actions you can expect during **The Union Campaign and Election**. And we explain what you can expect during the actual **Collective Bargaining** sessions, **How to Handle Grievances**, and finally, **Cooperative Labor Relations**.

LEARNING OBJECTIVE 15-1

Present a brief history of labor movement.

Labor Movement in the U.S. and India

Unions remain influential though its clout is slowly reducing across the globe. Almost 15 million U.S. workers belong to unions—about 11.1% of the total number of men and women working in America.² About 36% of U.S. public-sector workers belong to unions. In some private-sector industries like utilities (22.3% unionization), and transportation and warehousing (19.6%), it can still be hard to get jobs without joining unions.

Furthermore, don't assume that unions affect employers only negatively. For example, perhaps by professionalizing the staff and/or systematizing practices, heart attack mortality among patients in hospitals with unionized nurses was 5% to 9% lower than in nonunion hospitals.³ Often, employers' labor relations policies evolve, as the accompanying Strategic Context feature illustrates.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Walmart's New HR Strategy

Walmart aims to be retailing's low-cost leader. It minimizes purchasing, site location, distribution, and personnel costs to offer the lowest prices.⁴ It consistently blocked entry to unions.

Recently, Walmart revised its strategies, for several reasons. Amazon was pressuring it on prices. The U.S. labor market tightened, which made hiring more challenging. Negative stories about "below living wage" wages and last-minute employee scheduling undermined Walmart's appeal for many consumers. Costco has long parried Walmart's low labor costs by eliciting higher productivity from higher-paid and engaged employees and by maintaining good union relations. Walmart's year-on-year same-store sales drifted down. Its top management had to do something.

Walmart changed its strategy in two ways. First, it bought jet.com for \$3.3 billion, in a bid to expand its online efforts. Second, it instituted new HR policies. It raised starting employees' hourly wages to \$11 per hour, and awarded up to \$1,000 bonuses to most employees. It instituted a new "Pathways" training program to help employees plan Walmart careers and to help them better understand their jobs. Employees also started getting more choice in scheduling their hours.

Early results are promising. Same-store sales are rising, associates' feedback is good, and employment applications are up 5–10%. Whether Walmart's stance toward unions evolves should become apparent over time.

Support for unions has always ebbed and flowed in America and India, and today pressures are building against unions. For example, many public employees are unionized, and budget problems prompted several states to reduce public employees' numbers, pensions, and pay.

In India, the recent case is on BSNL where unions have been protesting against delay in salary and government's refusal to continue financial support. However, the government is going ahead with plans to downsize and restructure.⁵ Coal India (another central PSU) workers also protested against proposed disinvestment and privatization which may lead to job losses.⁶

We'll look at unions and dealing with them in this chapter.

Why Do Workers Organize?

Experts have spent much time and money trying to figure out why workers unionize, and they've proposed many theories. Yet there is no simple answer.

Pay is still important. For example, recent median weekly wages for union workers in U.S. was \$980, versus \$776 for nonunion workers.⁷ Union workers

Workers at an early Ford factory. In addition to heavy physical labor, workers faced health hazards—poor lighting, dust, and dangerous machinery.

VintageCorner/Alamy Stock Photo



also generally receive more holidays, sick leave, unpaid leave, health plan benefits, and other benefits—about \$14.50 per hour in benefits compared with about \$ 7.50 per hour for nonunion workers.⁸

But it's not just the money. Instead the urge to unionize often comes down to the belief on the part of workers that it's only through unity that they can get their fair share of the "pie" and also protect themselves from the arbitrary whims of management. The bottom line is that low morale, fear of job loss, and poor communication (in other words, poor employee relations) also foster unionization. When Kaiser Permanente U.S. cut back on vacation and sick leave for its pharmacists, the Guild for Professional Pharmacists won back the lost vacation days. Said one, "Kaiser is a pretty benevolent employer, but there's always the pressure to squeeze a little."⁹ One U.S.-based labor relations lawyer says, "The one major thing unions offer is making you a 'for cause' instead of an 'at will' employee, which guarantees a hearing and arbitration if you're fired."¹⁰ So, in practice, low morale, fear of job loss, and arbitrary management actions help foster unionization.¹¹

In some respects, things haven't changed much in decades. Here is how one writer describes the motivation behind the early (1900s) unionization of automobile workers:

In the years to come, economic issues would make the headlines when union and management met in negotiations. But in the early years, . . . the principal grievances of the autoworkers were the speed-up of production and the lack of any kind of job security. As production tapered off, the order in which workers were laid off was determined largely by the whim of foremen and other supervisors. . . . Generally, what the workers revolted against was the lack of human dignity and individuality, and a working relationship that was massively impersonal, cold, and nonhuman. They wanted to be treated like human beings—not like faceless clock card numbers.¹²

■ HR AND THE GIG ECONOMY: WILL UBER DRIVERS ORGANIZE?

For many gig workers, being at the employer's mercy is the biggest downside of gig work. For example, low user ratings can lead to Uber summarily deactivating drivers. Would unionizing help?

Many Uber drivers think so. In New York City pressure from drivers prompted Uber to create a union-like entity known as the Independent Drivers Guild (IDG).¹³ The IDG isn't really a union under the law. For instance, Uber funds the Guild, Uber drivers are independent contractors and didn't vote to have the Guild represent them, and the Guild itself agreed not to instigate strikes or to push for forming a union prior to 2021. However, the IDG has established a mechanism through which Uber drivers can appeal deactivations (staffed by other drivers and overseen by the American Arbitration Association) and also provides other types of driver assistance.¹⁴ In India also, Uber and Ola formed unions and protested against the operators highhanded dealings. They were miffed by the operator's lack of sensitivity to their plight.¹⁵

Employee Engagement and Unionization

Why else do workers unionize? *Modern Survey* conducted a study that measured things such as employees' interest in being represented by a union, confidence in senior management, and employee engagement. It concluded that 50% of "actively disengaged" employees would vote "yes" to unionize, while only 20% of such employees would vote "no union." It concludes that "paying attention to employee engagement levels within your organization helps to foster positive relationships between employees and management and decreases the likelihood of a workforce seeking union representation."¹⁶

Gallup surveys complement these conclusions. For example, among the over 500 organizations in which Gallup measures employee engagement, 45% of *nonunion* employees were engaged, while fewer—38%—of unionized employees were engaged.¹⁷ A study of Indian organizations across different sectors showed that initiatives like performance reviews, regular feedback and communication, career growth and rewards help to maintain better union-management relationship and positive employee perception. The same study showed that training is not seen positively by unions, since they consider it as management building direct relationship with workers.¹⁸

Findings like these don't prove that engaged employees are less likely to support a unionization effort in their companies, or that unionized employees are less engaged. The findings are correlational, so they only "prove" that when employee engagement goes up, unionization goes down. But the reality might be different. It could be that the same management policies (such as guaranteed fair treatment systems) affect both employee engagement and nonunionization. But on the whole such findings do suggest that the same sorts of policies (such as good benefits, building trust, and guaranteeing fair treatment) that improve employee engagement may also reduce the likelihood of being unionized to some degree.



What Do Unions Want?

We can generalize by saying that unions have two sets of aims, for *union security* and for *improved wages, hours, working conditions, and benefits* for their members.

closed shop

A form of union security in which the company can hire only union members.

union shop

A form of union security in which the company can hire nonunion people, but they must join the union after a prescribed period of time and pay dues. (If they do not, they can be fired.)

agency shop

A form of union security in which employees who do not belong to the union must still pay union dues on the assumption that union efforts benefit all workers.

preferential shop

Union members get preference in hiring, but the employer can still hire nonunion members.

right to work

A term used to describe statutory or constitutional provisions banning the requirement of union membership as a condition of employment.

UNION SECURITY First and probably foremost, unions seek security for themselves. They fight hard for the right to represent a firm's workers, and to be the exclusive bargaining agent for all employees in the unit. (As such, they negotiate contracts for all employees, including those not members of the union.) Multiple unions in same firm often end up eroding their bargaining power, and there is always an inter-union rivalries. Employers also experience difficulties while dealing with multiple unions. Five types of union security are possible:

1. **Closed shop.**¹⁹ The company can hire only current union members. In some Indian organizations, jobs like porters are given only to union members. U.S. Congress outlawed closed shops in interstate commerce, but they still exist in some states for particular industries (such as printing).
2. **Union shop.** The company can hire nonunion people, but they must join the union after a prescribed period and pay dues. (If not, they can be fired.)
3. **Agency shop.** Employees who do not belong to the union still must pay the union an amount equal to union dues (on the assumption that the union's efforts benefit *all* the workers).
4. **Preferential shop.** Union members get preference in hiring, but the employer can still hire nonunion members.
5. **Maintenance of membership arrangement.** Employees do not have to belong to the union. However, union members employed by the firm must maintain membership in the union for the contract period. These account for about 4% of union agreements.

Not all countries, states give unions the right to require union membership as a condition of employment. **Right to work** is a term used to describe "statutory or constitutional provisions banning the requirement of union membership as a condition of employment."²⁰ *Right-to-work laws* don't outlaw unions. They do outlaw (within those states) any form of union security. In India, the right to work without union membership is constitutionally guaranteed. Recently in the U.S. there were 28 right-to-work states.²¹ Right to work adversely affects union membership levels.²²

IMPROVED WAGES, HOURS, AND BENEFITS Once the union ensures its security at the employer, it fights to improve its members' wages, hours, working conditions, and benefits. The typical labor agreement also gives the union a role in other human resource activities, including recruiting, selecting, compensating, promoting, training, and terminating employees.

Trade Unions in India and U.S.

The American Federation of Labor and Congress of Industrial Organizations (AFL–CIO) is a voluntary federation of about 57 national and international labor unions in the United States. For many people in the United States, the AFL–CIO is still synonymous with the word *union*.

There are three layers in the AFL–CIO and most other U.S. unions. The worker joins the local union, to which he or she pays dues. The local is in turn a single chapter in the national union. For example, if you were a teacher in Detroit, you would belong to the local union there, which is one of hundreds of local chapters of the American Federation of Teachers, their national union (most unions actually call themselves international unions). The third layer is the national federation, in this case, the AFL–CIO.



LEARNING OBJECTIVE 15-2

Give five examples of unfair union practices and of unfair employer practices in labor law.

Unions and the Law: As in the U.S. and India

The history of the American labor movement is one of expansion and contraction in response to public policy changes. Until about 1930, there were no special labor laws. Employers were not required to engage in collective bargaining with employees and were virtually unrestrained in their behavior toward unions; the use of spies and firing of union agitators were widespread. “Yellow dog” contracts, whereby management could require nonunion membership as a condition for employment, were widely enforced. Most union weapons—even strikes—were illegal.

This situation lasted until the Great Depression (around 1930).²³ Since then, in response to changing public attitudes and economic conditions, labor law has gone through three clear periods: from “strong encouragement” of unions, to “modified encouragement coupled with regulation,” and finally to “detailed regulation of internal union affairs.”²⁴

Period of Strong Encouragement: The Norris–LaGuardia (1932) and National Labor Relations (or Wagner) Acts (1935)

The Norris–LaGuardia Act of 1932 set the stage for a new era in which union activity was encouraged. It guaranteed to each employee the right to bargain collectively “free from interference, restraint, or coercion.” It declared yellow dog contracts unenforceable. And it limited the courts’ abilities to issue injunctions (stop orders) for activities such as peaceful picketing and payment of strike benefits.

Yet this act did little to restrain employers from fighting labor organizations. So, in 1935, Congress passed the **National Labor Relations (or Wagner) Act** to add teeth to Norris–LaGuardia. It did this by (1) banning certain unfair labor practices, (2) providing for secret-ballot elections and majority rule for determining whether a firm’s employees would unionize, and (3) creating the **National Labor Relations Board (NLRB)** to enforce these two provisions.²⁵



UNFAIR EMPLOYER LABOR PRACTICES The Wagner Act deemed “statutory wrongs” (but not crimes) five unfair labor practices used by employers:

1. It is unfair for employers to “interfere with, restrain, or coerce employees” in exercising their legally sanctioned right of self-organization.
2. It is unfair for company representatives to dominate or interfere with either the formation or the administration of labor unions. Among other specific management actions found to be unfair under these first two practices are bribing employees, using company spy systems, moving a business to avoid unionization, and blacklisting union sympathizers.
3. Employers are prohibited from discriminating in any way against employees for their legal union activities.
4. Employers are forbidden to discharge or discriminate against employees simply because the latter file unfair practice charges against the company.
5. Finally, it is an unfair labor practice for employers to refuse to bargain collectively with their employees’ duly chosen representatives.

Unions in U.S. file an unfair labor practice charge with the National Labor Relations Board. (For example, the American Guild of Musical Artists said it would file an unfair labor charge against the New York

City Opera if it cut staff and moved.) The Board then decides whether to take action. Possible actions include dismissal of the complaint, request for an injunction against the employer, or an order that the employer cease and desist.

FROM 1935 TO 1947 Union membership increased quickly after passage of the Wagner Act. Other factors such as an improving economy and aggressive union leadership contributed to this rise. But by the mid-1940s, largely due to massive postwar strikes, public policy began to shift against what many viewed as union excesses. The stage was set for passage of the Taft–Hartley Act.

Period of Modified Encouragement Coupled with Regulation: The Taft–Hartley Act (1947)

Taft–Hartley Act of 1947

Also known as the *Labor Management Relations Act*, this law prohibited unfair union labor practices and enumerated the rights of employees as union members. It also enumerated the rights of employers.

The Taft–Hartley (*or Labor Management Relations*) Act of 1947 reflected the public's less enthusiastic attitude toward unions. It amended the National Labor Relations (Wagner) Act by limiting unions in four ways: (1) prohibiting unfair union labor practices, (2) enumerating the rights of employees as union members, (3) enumerating the rights of employers, and (4) allowing the president of the United States to bar temporarily national emergency strikes.

Unfair Union Labor Practices

The Taft–Hartley Act enumerated several labor practices that unions were prohibited from engaging in:

1. First, it banned *unions* from *restraining or coercing employees* from exercising their guaranteed bargaining rights. (Some union actions that courts have held illegal include telling an anti-union employee that he or she will lose his or her job once the union gains recognition, and issuing patently false statements during union organizing campaigns.)
2. It is also an unfair labor practice for a union to *cause an employer to discriminate* in any way against an employee so as to encourage or discourage his or her union membership. For example, the union cannot try to force an employer to fire a worker because he or she doesn't attend union meetings or refuses to join a union. There is one exception: Suppose a closed or union shop prevails (and union membership is therefore a prerequisite to employment). Then the union may demand the discharge of someone who fails to pay his or her initiation fees and dues.
3. It is an unfair labor practice for a union to *refuse to bargain in good faith* with the employer about wages, hours, and other employment conditions.
4. It is an unfair labor practice for a union to engage in *featherbedding* (requiring an employer to pay an employee for services not performed).

RIGHTS OF EMPLOYEES The Taft–Hartley Act protected the rights of employees against their unions in other ways. For example, many people felt that compulsory unionism violated the right of freedom of association. Legitimized by Taft–Hartley, new right-to-work laws sprung up in 19 (now 28) states (mainly in the South and Southwest). In New York, for example, in many printing firms you can't work as a press operator unless you belong to a printers' union. In Florida, a right-to-work state, printing shops typically employ both union and nonunion operators. Even today, union membership varies widely by state, from a high of 23.8% in New York to a low of 2.6% in South Carolina.²⁶

The Taft–Hartley act also required the employee’s authorization before the union could subtract dues from his or her paycheck.

In general, the Labor Relations (Taft–Hartley) Act does not restrain unions from unfair labor practices to the extent that the law does employers. It says unions may not restrain or coerce employees. However, “violent or otherwise threatening behavior or clearly coercive or intimidating union activities are necessary before the NLRB will find an unfair labor practice.”²⁷ Examples include physical assaults or threats, economic reprisals, and mass picketing that restrains lawful entry or leaving.

RIGHTS OF EMPLOYERS The Taft–Hartley Act also explicitly gave *employers* certain rights. First, it gave them full freedom to express their views concerning union organization. For example, as a manager you can tell your employees that in your opinion unions are worthless, dangerous to the economy, and immoral. You can even (generally) hint that unionization and high-wage demands might result in the permanent closing of the plant (but not its relocation). Employers can set forth the union’s record concerning violence and corruption, if appropriate. In fact, the only major restraint is that employers must avoid threats, promises, coercion, and direct interference with workers who are trying to reach a decision. There can be no threat of reprisal or force or promise of benefit.²⁸

Furthermore, the employer (1) cannot meet with employees on company time within 24 hours of an election or (2) suggest to employees that they vote against the union while they are at home or in the employer’s office (although he or she can do so while in their work area or where they normally gather).

A Brief History of Union Movement in India

The Indian labor movement is more than 150 years old, with its origin in the 1850s. But it gained momentum in 1918, when the Madras Labor Union was formed with mill-workers as members. A series of protests and strikes were organized, leading to the formation of All India Trade Union Congress (AITUC) in 1920, which gave a fillip to the organized labor movement in India. The early years were turbulent, with a series of agitations and strikes in different parts of the country. The focus of the unions was to end exploitation of workers in factories and other workplaces like mines. Trade unions also participated in the freedom struggle against the colonial rule. National leaders like Mahatma Gandhi were active in the trade union movement. The introduction of Trade Union (TU) Act of 1926 provided the required legal framework for unions. The TU Act also provided immunity from civil suits and criminal prosecutions. It also allowed any seven members to register a union and also allowed external leadership. Both the above provisions have been criticized later. The legislations were also silent about the recognition of trade union as a representative of worker by the employer.

The changes in the political landscape of India resulted in the AITUC splitting into Indian National Trade Union Congress (INTUC) in 1947, followed by the formation of Hindustan Mazdoor Sabha (HMS) in 1948. Subsequent political events like the split in the Indian National Congress and the Communist Party also resulted in formation of corresponding unions. Thus, in India, politically affiliated unions became a feature, and many trade union leaders got elected to the parliament or state assemblies and even became ministers. The election of communist government in states like Kerala and West Bengal gave a fillip to the labor movement in these states. The economic

planning model of Five Year Plans and the import substitution model led to the creation of public sector, under which unions thrived. It also led to the growth of private sector.

With the support of political parties and elected governments, the public sector and many private companies, particularly in manufacturing and services, became heavily unionized. What followed in the 1960s and 1970s was a rise in trade union activity leading to strikes and lockouts. The imposition of Emergency in 1975 led to the suspension of trade union rights, leading to a sudden fall in trade union activity (many prominent opposition trade union leaders were jailed during the emergency period); however, union activities picked up after the Emergency was lifted. Under pressure from trade unions, in 1976, the Industrial Disputes Act was amended making it mandatory for firms employing more than 300 workmen to take prior government permission before retrenching.

The failure of the Bombay Textile Strike (1981–1983) led by an independent trade union leader, Dutta Samant, marked another shift in labor unions in the country. The strike was initiated in a small scale over the issue of wages soon embraced the entire industry, but it failed to achieve its purpose. Thus, nonpolitical unions focusing on members' requirements without any political stance became a reality in India. In many places, they competed with traditional politically supported unions. Another significant event during the same time (1980–81) was the large PSU strike in Bangalore.

With the first wave of partial economic liberalization in 1984, the approach of unions also started to change. By that time, the profile of their members also changed with more workers wanting better living conditions, rather than those subscribing to a political ideology. Private sector unions became increasingly open to productivity linked agreements that were later accepted by the public sector unions as well. The powerful banking sector trade unions allowed the introduction of computers on a limited scale. Though the unions extracted a price for this in terms of extra payment, their strength and ability to call for an industrial action started to diminish.

Soon both the employers and unions realized the need to achieve productivity gains and to maintain healthy bottom-line. They also understood the effects of competition and market forces. The focus also shifted from just increasing output to building a positive work culture and enhancing skills. In many firms, management and unions worked together to build better work culture and share the gains. There was a marked shift towards adopting a collaborative approach rather than a confrontationist one.

The next phase of economic reforms was introduced in 1992. These reforms focused on opening of the economy and its integration with global economic forces. Privatization of state-owned enterprises and closing down of unviable ones were part of the reform package. The voluntary retirement scheme (VRS) became a legal option for firms to separate excess employees on mutual agreement. The national renewal fund (NRF) was established to help firms adjust to the realities of this new economy. At present, many traditional unions, both in the public and private sectors, have recognized the significance of market forces and competition, and are prepared to work with the management to increase competitiveness. While the industry and investors demanded reforming the labor laws to introduce more flexibility and the right to hire and fire, due to opposition from national unions, much progress could not be made.

The emerging new-generation IT/ITES sector did not have labor union activity. The career and professional growth focused employees showed antipathy toward unions, and their employers went ahead to ensure good work conditions. Union of Information Technology Professionals (UNITES Pro.), based in Bengaluru, has been campaigning for employee rights in this sector, but its acceptance levels are low. However, in recent times, the rising job insecurity in the IT/ITES sector has changed the outlook of knowledge workers, who are generally non-inclined to unions and its methods of asserting for rights. Confronted with withdrawal of job offers, the prospective employees of Satyam Computers attempted unionization.²⁹ Non-union firms have also become a norm in the traditionally unionized sectors like manufacturing and services (e.g., the new private banks are completely trade-union free). These non-union firms employ lesser number of blue-collar workers, outsource many such activities, relocate their operations, and practice innovative people management practices. In some cases, maintaining non-union status is made a part of the performance goals of the HR team.

The marginalization of mainstream trade unions and the rising insecurity of jobs, lead to backlashes in many firms. Between 2009 and now, there has been increasing incidents of strikes and agitations, including efforts from employees to unionize in many private companies and MNCs. Employees of HMSI and Rico Motors went on a strike demanding, among others, the right to unionize, and there were incidents of violence associated with the strike. During the same period, the ground staff and cabin crew of Jet Airways went on a strike after many of them were removed from jobs citing economic difficulties. Jet Airways' pilots also protested against the sacking of two senior pilots. In the case of Pricol Industries Coimbatore and Maruti Suzuki India, senior executives were unfortunate victims of violent unions. A few similar incidents happening across India, have invited the attention to the increasing cases of union militancy in some pockets and sectors.

Formal trade unions have traditionally stayed away from actively organizing the non-formal sector, which provides employment to a large section of the Indian population. States like Kerala or West Bengal are exceptions, as they have strong leftist political activity at the grass-roots level. Recently, the Self Employed Women's Association (SEWA), which works to organize informal sector workers, mostly women, has been given the status of a central trade union. The recognition will help SEWA raise issues of informal sector work at the national stage.

LABOR LAW TODAY As we'll see toward the end of this chapter, it isn't quite clear whether the pressures toward a more encouraging or a more discouraging climate for labor law will prevail for the next few years. On the one hand, we'll see that unions are pushing for new legislation that would substantially improve unions' efforts. On the other hand, economic realities (shrinking state budgets, for instance) have undoubtedly reduced union membership.³⁰ At present, the Indian government has initiated steps to rationalize the labor laws and consolidate them to four major labor codes (discussed in Chapter 2).



The Union Drive and Election: The U.S. Experience

It is through the union drive and election that a union tries to be recognized to represent employees. To protect themselves and their employers, supervisors need to understand this process. It has five basic steps.³¹

Step 1. Initial Contact

During the initial contact stage, the union determines the employees' interest in organizing, and establishes an organizing committee.

The initiative for the first contact between the employees and the union may come from the employees, from a union already representing other employees of the firm, or from another union. In any case, there is an initial contact.

Once an employer becomes a target, a union official usually assigns a representative to assess employee interest. The representative visits the firm to determine if enough employees are interested in a campaign, identifies employees who would make good leaders in the organizing campaign, and creates an organizing committee. The aim is to educate the committee about the benefits of forming a union and the law and procedures for forming a local union.

The union must follow certain rules when it starts contacting employees. The law allows organizers to solicit employees for membership as long as the effort doesn't endanger the performance or safety of the employees. Therefore, much contact takes place off the job, perhaps at home or at places near work. Organizers can also safely contact employees on company grounds during off hours (such as lunch or break time). Yet, in practice, there will be much informal organizing going on at the workplace as employees debate organizing. Sometimes the first inkling management has is the distribution of handbills soliciting union membership.

Much soliciting will be via e-mail, but prohibiting employees from sending pro-union e-mail messages using company e-mail isn't easy. You can't discriminate against union activities. Therefore, prohibiting only union e-mail may violate NLRB rules. And barring workers from using e-mail for all non-work-related topics may be futile if the company actually does little to stop it.

LABOR RELATIONS CONSULTANTS Both management and unions typically use "labor relations consultants." These may be law firms, researchers, psychologists, labor relations specialists, or public relations firms. Some are former union organizers.³²

For the employer, the consultant's services may range from ensuring that the firm properly fills out routine labor relations forms to managing the union campaign. Unions may use public relations firms to improve their image, or specialists to manage corporate campaigns. (These pressure shareholders and creditors to get management to agree to the union's demands.)

Some say consultants encourage questionable tactics. One tactic is to delay the union vote with lengthy hearings at the NLRB. The longer the delay in the vote, they argue, the more time the employer has to drill anti-union propaganda into the employees.

union salting

A union organizing tactic by which workers who are in fact employed full-time by a union as undercover organizers are hired by unwitting employers.

UNION SALTING Unions are not without creative ways to win elections. The National Labor Relations Board defines **union salting** as "placing of union members on nonunion job sites for the purpose of organizing." Critics claim that "salts" interfere with business operations and harass employees.³³

The U.S. Supreme Court ruled that union salts are “employees” under the National Labor Relations Act; the NLRB will require that employers pay salts if they fire them for trying to organize.³⁴ The solution is to know whom you’re hiring. However, not hiring someone solely because he or she might be pro-union or a union salt would be discriminatory.³⁵

Unions also use *public pressure*. For example, in the past few years, unions have organized about 5,000 Silicon Valley contract workers (such as Facebook shuttle drivers), most of whom are employed by contractors.³⁶

When the Unite union set out to organize Facebook shuttle workers, they didn’t just pressure the employment contractor (Loop Transportation Inc.). Instead, Unite’s campaign publicized how Facebook shuttle drivers had to sleep in their cars to make ends meet; news organizations worldwide ran the story. Soon, with Facebook’s acquiescence, Loop Transportation signed a contract with the union and boosted drivers’ pay.

Step 2. Obtaining Authorization Cards

For the union to petition the NLRB for the right to hold an election, it must show that a sizable number of employees may be interested in organizing. Therefore, the next step for union organizers is to try to get the employees to sign **authorization cards** (see Figure 15-1). Among other things, these usually authorize the union to seek a representation election, and state that the employee has applied to join the union. Thirty percent of the eligible employees in an appropriate bargaining unit must sign before the union can petition the NLRB for an election (although that figure may rise to over 50% if the employer has agreed to recognize the union if a majority of employees sign the authorization cards).

This is a dangerous time for supervisors. During this stage, both union and management use propaganda. The union claims it can improve working conditions, raise wages, increase benefits, and generally get the workers better deals.

authorization cards

In order to petition for a union election, the union must show that at least 30% of employees may be interested in being unionized. Employees indicate this interest by signing authorization cards.

FIGURE 15-1 Sample Authorization Card

Source: Gary Dessler, *Fundamentals of Human Resource Management*, Pearson Education, 2019.

SAMPLE UNION of AMERICA
Authorization for Representation

I hereby authorize Local 409 of the SAMPLE union to be my exclusive representative for the purposes of collective bargaining with my employer. I understand that my signature on this card may be used to obtain certification of Local 409 as our exclusive bargaining representative without an election.

This card will verify that I have applied for union membership and that effective _____ I hereby authorize you to deduct each pay period from my earnings an amount equal to the regular current rate of monthly union dues and initiation fee.

Employer: _____ Worksite: _____

Date: _____ Name: _____

Street Address: _____ City: _____ Zip Code: _____

Home Phone: _____ Cell Phone: _____ Home E-Mail: _____

Department: _____

Job Title/Classification: _____

Signature: _____

You must print and mail in this authorization card for it to be recognized. Only original cards are valid and should be submitted. Mail to:

SAMPLE UNION of America, Local 409
301 Sample Way
Miami, FL 33101

Management can attack the union on ethical and moral grounds and cite the cost of union membership. Management can also explain its accomplishments, express facts and opinions, and explain the law applicable to organizing campaigns. However, neither side can threaten, bribe, or coerce employees. And an employer (or supervisor) may not make promises of benefits to employees or make unilateral changes in terms and conditions of employment that were not planned to be implemented prior to the onset of union organizing activity.

STEPS TO TAKE Management can take several steps with respect to the authorization cards. For example, the NLRB ruled an employer might lawfully inform employees of their right to revoke their authorization cards, even when employees have not asked for such information. The employer can also distribute pamphlets that explain just how employees can revoke their cards. However, the law prohibits any material assistance to employees such as postage or stationery.

Similarly, it is an unfair labor practice to tell employees they can't sign a card. What you *can* do is prepare supervisors so they can explain what the card actually authorizes the union to do—including subjecting the employee to union rules. The union, for instance, may force the employee to picket and fine any member who does not comply. Such explanations can be an effective weapon.

One thing managers should *not* do is look through signed authorization cards if confronted with them by union representatives. The NLRB could construe that as an unfair labor practice, as spying on those who signed. Doing so could also later form the basis of a charge alleging discrimination due to union activity, if the firm subsequently disciplines someone who signed a card.

During this stage, unions can picket the company, subject to three constraints: (1) The union must file a petition for an election within 30 days after the start of picketing; (2) the firm cannot already be lawfully recognizing another union; and (3) there cannot have been a valid NLRB election during the past 12 months.

Step 3. Hold a Hearing

Once the union collects the authorization cards, one of three things can occur. If the employer chooses *not to contest union recognition* at all, then the parties need no hearing, and a special “consent election” is held. If the employer chooses not to contest the union's *right to an election*, and/or the scope of the bargaining unit, and/or which employees are eligible to vote in the election, no hearing is needed and the parties can stipulate an election. If an employer *does* wish to contest the union's right, it can insist on a hearing to determine those issues. An employer's decision about whether to insist on a hearing is a strategic one. Management bases it on the facts of each case, and on whether it feels it needs more time to try to persuade employees not to elect a union.

Most companies do contest the union's right to represent their employees, claiming that a significant number don't really want the union. It is at this point that the NLRB gets involved. The union usually contacts the NLRB, which requests a hearing. It then sends a hearing officer to investigate. The examiner sends both management and union a notice of representation hearing (NLRB Form 852) that states the time and place of the hearing.

The hearing addresses several issues. First, does the record indicate there is enough evidence to hold an election? (For example, did 30% or more of the employees in an appropriate bargaining unit sign the authorization cards?) Second, the examiner decides what the bargaining unit will be. The **bargaining**

bargaining unit

The group of employees the union will be authorized to represent.

unit is the group of employees that the union will be authorized to represent and bargain for collectively. If the entire organization is the bargaining unit, the union will represent all nonsupervisory, nonmanagerial, and nonconfidential employees, even though the union may be oriented mostly toward blue-collar workers. (Professional and nonprofessional employees can be included in the same bargaining unit only if the professionals agree.) If your firm disagrees with the examiner's bargaining unit decision, it can challenge the decision. This will require a separate NLRB ruling.

The NLRB hearing addresses other issues. These include, "Does the employer qualify for coverage by the NLRB?" and "Is the union a labor organization within the meaning of the National Labor Relations Act?"

If the results of the hearing are favorable for the union, the NLRB will order holding an election. It will issue a Notice of Election to that effect for the employer to post.

Step 4. The Campaign

During the campaign that precedes the election, union and employer appeal to employees for their votes. The union will emphasize that it will prevent unfairness, set up grievance and seniority systems, and improve wages. Union strength, they'll say, will give employees a greater voice in disciplinary matters and in determining wages and working conditions. Management will stress that improvements like those don't require unions and that wages are equal to or better than with a union. Management will also emphasize the cost of union dues; the fact that the union is an "outsider"; and that if the union wins, a strike may follow. It can even attack the union on ethical and moral grounds, while insisting that employees will not be as well off and may lose freedom. But neither side can threaten, bribe, or coerce employees.

Step 5. The Election

The election occurs within 30 to 60 days after the NLRB issues its Decision and Direction of Election. The election is by secret ballot;

The union becomes the employees' representative if it wins the election, and winning means getting a majority of the votes *cast*, not a majority of the total workers in the bargaining unit. (Also keep in mind that if an employer commits an unfair labor practice, the NLRB may reverse a "no union" election. Supervisors must therefore be careful not to commit unfair practices.)

Evidence-Based HR: What to Expect the Union to Do to Win the Election

The other side of the coin is this: What can unions do to boost their chances they'll win the election? A researcher analyzed data from 261 NLRB elections. She found that the best way for unions to win is a "rank-and-file strategy." This includes:³⁷

1. "Reliance on a slow, underground, person-to-person campaign using house calls, small group meetings, and pre-union associations to develop leadership and union commitment, and prepare workers for employer anti-union strategies before the employer becomes aware of the campaign."
2. The union will focus on building active rank-and-file participation, including an organizing committee reflecting the different interest groups in the bargaining unit.
3. The union will press for a first contract early in the organizing process.

4. The union will use “inside and outside pressure tactics to build worker commitment and compel the employer to run a fair campaign.”
5. There will be an emphasis during the organizing campaign on issues such as respect, dignity, and fairness, not just traditional bread-and-butter issues like wages.

The Supervisor's Role

After Target won a unionization election at a New York store, a federal judge overturned it and required a new election. The judge found that Target managers had violated labor law by telling employees they couldn't wear union buttons or distribute flyers, and by threatening to discipline workers who discussed union matters.³⁸

Supervisors are an employer's first line of defense in the unionizing effort. They are often in the best position to sense employee attitude problems, and to discover the first signs of union activity. However, supervisors can also inadvertently undermine their employer's union efforts. Supervisory unfair labor practices could then (1) cause the NLRB to hold a new election after your company has won a previous election, or (2) cause your company to forfeit the second election and go directly to contract negotiation.

SOME TIPS Supervisors can use the acronym TIPS to remember what *not* to do during the union election campaigns.³⁹ Supervisors involving in such matters can lead to conflicts later, and is also an undesirable management practice. *Do not* Threaten, Interrogate, make Promises to, or Spy on employees (for instance, do not threaten that you will close or move the business, cut wages, reduce overtime, or lay off employees). FORE outlines what you may do. *You may* give employees Facts (like what signing the authorization card means), express your Opinion about unions, explain factually correct Rules and share your Experiences about unions.

Decertification Elections: Ousting the Union

Winning an election and signing an agreement don't necessarily mean that the union is in the company to stay. The same law that grants employees the right to unionize also gives them a way to terminate legally (decertify) their union's right to represent them. In India, Section 10 of the Trade Unions Act, 1926, specifies that the registrar of trade unions can withdraw or cancel the registration of trade unions in specific circumstances. These circumstances are obtaining certificate by fraud or mistake, the union not following the law, or if membership falls below the requisite numbers. A point to note here is that in India, registration of unions and its recognition as bargaining agent are separate.

It is interesting to note that decertification campaigns are similar to certification campaigns with respect to several aspects like the organization of membership meetings by the union, house-to-house visits, mailing literature into homes, usage of mediums such as phone calls, e-mails, and (sometimes) even threats so as to win the election.

Against the backdrop of globalization, the entire matter of employer's challenges with respect to the union is more complicated.

In the U.S., there were 180 such **decertification** elections in one recent year, of which unions won about 39%.⁴⁰

Globalization complicates the employer's union relations challenges, as the accompanying HR Practices Around the Globe feature shows.

decertification

Legal process for employees to terminate a union's right to represent them.

■ IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE⁴¹

France Comes to the Workers' Aid

Employers planning to expand abroad should ponder the experience of drug maker Sanofi SA in France. Because of the relatively high cost of running its research facility in southwestern France, Sanofi told its researchers there it was closing their facility.⁴² Employees began staging weekly protests, supported by the French government, which opposes profitable companies slashing jobs. After 9 months, the company was still waiting for a government report on the situation so it could finish negotiating with its unions and try to get some of them other jobs elsewhere. As one Sanofi manager said, "In France, the politics, the labor laws are extremely different than in any other regions. . . . It means that for sites like Toulouse . . . anything you want to do differently gets to be a confrontational issue."⁴³



LEARNING OBJECTIVE 15-3

Illustrate with examples bargaining that is not in good faith.

The Collective Bargaining Process

What Is Collective Bargaining?

When and if the union becomes your employees' representative, a day is set for management and labor to meet and negotiate a labor agreement. This agreement will contain specific provisions covering wages, hours, and working conditions.

What exactly is **collective bargaining**? According to the National Labor Relations Act, U.S.

For the purpose of [this act,] to bargain collectively is the performance of the mutual obligation of the employer and the representative of the employees to meet at reasonable times and confer in good faith with respect to wages, hours, and terms and conditions of employment, or the negotiation of an agreement, or any question arising thereunder, and the execution of a written contract incorporating any agreement reached if requested by either party, but such obligation does not compel either party to agree to a proposal or require the making of a concession.

In plain language, this means that both management and labor are required by law to negotiate wages, hours, and terms and conditions of employment "in good faith."

What Is Good Faith?

Good faith bargaining is the cornerstone of effective labor-management relations. It means that both parties communicate and negotiate, match proposals with counterproposals, and make a reasonable effort to arrive at an agreement. It does not mean that one party compels another to agree. Nor does it require that either party make any specific concessions (although some may be necessary).⁴⁴

How can you tell if bargaining is *not* in good faith? Here are some examples.⁴⁵

Surface bargaining. Going through the motions of bargaining without any real intention of completing an agreement.

Inadequate concessions. Unwillingness to compromise.

Inadequate proposals and demands. The advancement of proposals to be a positive factor in determining overall good faith.

collective bargaining

The process through which representatives of management and the union meet to negotiate a labor agreement.

good faith bargaining

Both parties are making every reasonable effort to arrive at agreement; proposals are being matched with counterproposals.

Dilatory tactics. The law requires that the parties meet and “confer at reasonable times and intervals.” Obviously, refusal to meet with the union does not satisfy the positive duty imposed on the employer.

Imposing conditions. Attempts to impose conditions that are so onerous or unreasonable as to indicate bad faith.

Making unilateral changes in conditions. This is a strong indication that the employer is not bargaining with the required intent of reaching an agreement.

Bypassing the representative. The duty of management to bargain in good faith involves, at a minimum, recognition that the union representative is the one with whom the employer must deal in conducting negotiations.

Withholding information. An employer must supply the union with information, upon request, to enable it to discuss the collective bargaining issues intelligently.

Of course, requiring good faith bargaining doesn’t mean that negotiations can’t grind to a halt.

The Negotiating Team

Both union and management send negotiating teams to the bargaining table, and both go into the bargaining sessions having “done their homework.”

First, they acquire data on which to build their bargaining positions.⁴⁶ From compensation surveys they compile data on pay and benefits, including comparisons with local pay rates and to rates for similar jobs in the industry. Data on the distribution of the workforce (in terms of age, sex, and seniority, for instance) are important, because it determines benefits. Internal economic data regarding benefits, earnings, and the cost of overtime are important too. Union representatives will have sounded out union members on their desires and conferred with representatives of related unions.

Management will also “cost” the current labor contract and determine the increased cost—total, per employee, and per hour—of the union’s demands. It will use information from grievances and feedback from supervisors to determine what the union’s demands might be, and prepare counteroffers and arguments.⁴⁷ Other popular tactics include attitude surveys to test employee reactions to various sections of the contract that management may feel require change, and informal conferences with local union leaders to discuss the operational effectiveness of the contract and to send up trial balloons on management ideas for change.

Costing the Contract

Collective bargaining experts emphasize the need to cost the union’s demands carefully. One says,

The mistake I see most often is [HR professionals who] enter the negotiations without understanding the financial impact of things they put on the table. For example, the union wants three extra vacation days. That doesn’t sound like a lot, except that in some states, if an employee leaves, you have to pay them for unused vacation time. [So] now your employer has to carry that liability on their books at all times.⁴⁸

Bargaining Items

Labor law sets out categories of specific items that are subject to bargaining: These are mandatory, voluntary, and illegal items.

TABLE 15-1 Illustrative Bargaining Items in the U.S.

Mandatory	Permissible	Illegal
Rates of pay	Indemnity bonds	Closed shop
Hours of employment	Management rights as to union affairs	Separation of employees based on race
Overtime pay	Pension benefits of retired employees	Discriminatory treatment
Holidays	Scope of the bargaining unit	
Vacations	Including supervisors in the contract	
Severance pay	Additional parties to the contract such as the international union	
Pensions	Use of union label	
Insurance benefits	Settlement of unfair labor charges	
Profit-sharing plans	Prices in cafeteria	
Christmas bonuses	Continuance of past contract	
Employee security	Membership of bargaining team	
Job performance	Employment of strikebreaker	
Union security		
Drug testing of employees		

Source: Michael R. Carrell and Christina Heavrin, *Labor Relations and Collective Bargaining: Cases, Practices, and Law*, 6th edition, © 2001. Reprinted by permission of Pearson Education, Inc. Upper Saddle River, NJ.

voluntary (or permissible) bargaining items

Items in collective bargaining over which bargaining is neither illegal nor mandatory—neither party can be compelled against its wishes to negotiate over those items.

Voluntary (or permissible) bargaining items are neither mandatory nor illegal; they become a part of negotiations only through the joint agreement of both management and union. Neither party can compel the other to negotiate over voluntary items. You cannot hold up signing a contract because the other party refuses to bargain on a voluntary item, such as benefits for retirees.

Illegal bargaining items are forbidden by law. A clause agreeing to hire union members exclusively would be illegal in a right-to-work state, for example.

Table 15-1 presents some of the 70 or so **mandatory bargaining items** over which bargaining is mandatory under the law. They include wages, hours, rest periods, layoffs, transfers, benefits, and severance pay. Others, such as drug testing, are added as the law evolves.



illegal bargaining items

Items in collective bargaining that are forbidden by law; for example, a clause agreeing to hire “union members exclusively” would be illegal in a right-to-work state.

mandatory bargaining items

Items in collective bargaining that a party must bargain over if they are introduced by the other party—for example, pay.

Building Negotiating Skills

Hammering out a satisfactory labor agreement requires negotiating skills. Experienced negotiators use *leverage*, *desire*, *time*, *competition*, *information*, *credibility*, and *judgment* to improve their bargaining positions.⁴⁹ Things you can *leverage* include *necessity*, *desire*, *competition*, and *time*.⁵⁰ For example, the union knows that an employer who must fill a big order fast (*necessity*) is at a disadvantage.

Similarly, the employer who makes its *desires* too obvious undercuts its position. *Competition* is important too. There is no more convincing ploy than subtly hinting you’ve got an alternative (like shifting services abroad). *Time* (particularly deadlines) can also tilt things for or against you.

“Knowledge is power” when negotiating, so having *information* is advantageous, as is *credibility*. Finally, good negotiators need *judgment*: the ability to “strike the right balance between gaining advantages and reaching compromises, in the substance as well as in the style of [their] negotiating technique.”⁵¹

Bargaining Guidelines

Expert Reed Richardson has the following advice for bargainers:

1. Be sure to set clear objectives for every bargaining item, and be sure you understand the reason for each.
2. Do not hurry.
3. When in doubt, caucus with your associates.
4. Be well prepared with firm data supporting your position.
5. Strive to keep some flexibility in your position.
6. Don't concern yourself just with what the other party says and does; find out why.
7. Respect the importance of face saving for the other party.
8. Be alert to the real intentions of the other party—not only for goals, but also for priorities.
9. Be a good listener.
10. Build a reputation for being fair but firm.
11. Learn to control your emotions and use them as a tool.
12. As you make each bargaining move, be sure you know its relationship to all other moves.
13. Measure each move against your objectives.
14. Remember that collective bargaining is a compromise process. There is no such thing as having all the pie.
15. Try to understand the people and their personalities.⁵²
16. Remember that excessive bargainer transparency and openness can backfire.⁵³



Impasses, Mediation, and Strikes

In collective bargaining, an **impasse** (or stalemate) occurs when the parties are not able to move further toward settlement. This usually occurs because one party is demanding more than the other will offer. For example, after reaching agreement with its unions on many issues after several months of bargaining, the Polk County (Florida) School District declared an impasse. It said that although it had negotiated in good faith with its two unions, it could not reach agreement on several issues, including wages and teacher evaluations.⁵⁴ Sometimes a third party, such as a mediator, can resolve an impasse. If the impasse is not resolved, the union may call a work stoppage, or *strike*.⁵⁵

THIRD-PARTY INVOLVEMENT Negotiators use three types of third-party interventions to overcome an impasse. With **mediation**, a neutral third party tries to assist the principals in reaching agreement. The mediator meets with each party to determine where each stands, and then uses this information to find common ground for bargaining. When Hostess Brands couldn't reach agreement with its unions, its bankruptcy judge had them join him for a mediation session, where he tried (unsuccessfully) to broker a new contract.⁵⁶

In certain situations, as in a national emergency dispute, a **fact finder** is a neutral party who studies the issues in a dispute and makes a public recommendation for a reasonable settlement.⁵⁷ Presidential emergency fact-finding boards resolved impasses in certain critical transportation disputes.

Arbitration is the most definitive third-party intervention, because the arbitrator may have the power to determine and dictate the settlement terms. With *binding arbitration*, both parties are committed to accepting the arbitrator's award. With *nonbinding arbitration*, they are not. Arbitration may also be voluntary or compulsory (imposed by a government agency). In the United States, voluntary binding arbitration is the most prevalent.

impasse

Collective bargaining situation that occurs when the parties are not able to move further toward settlement, usually because one party is demanding more than the other will offer.

mediation

Intervention in which a neutral third party tries to assist the principals in reaching agreement.

fact finder

A neutral party who studies the issues in a dispute and makes a public recommendation for a reasonable settlement.

arbitration

The most definitive type of third-party intervention, in which the arbitrator usually has the power to determine and dictate the settlement terms.

interest arbitration

Arbitration enacted when labor agreements do not yet exist or when one or both parties are seeking to change the agreement.

rights arbitration

Arbitration that interprets existing contract terms, for instance, when an employee questions the employer's right to take some disciplinary action.

strike

A withdrawal of labor.

economic strike

A strike that results from a failure to agree on the terms of a contract that involves wages, benefits, and other conditions of employment.

unfair labor practice strike

A strike aimed at protesting illegal conduct by the employer.

wildcat strike

An unauthorized strike occurring during the term of a contract.

sympathy strike

A strike that takes place when one union strikes in support of the strike of another.

There are two main topics of arbitration. **Interest arbitration** centers on working out a labor agreement; the parties use it when such agreements do not yet exist or when one or both parties are seeking to change the agreement. **Rights arbitration** really means “contract interpretation arbitration.” It usually involves interpreting existing contract terms, for instance, when an employee questions the employer's right to have taken some disciplinary action.⁵⁸ Mediators will often use *alternative dispute resolution* tactics (such as asking if the parties want to take a break, or are willing to set the issue at hand aside temporarily) to head off or deal with an impasse.⁵⁹

SOURCES OF THIRD-PARTY ASSISTANCE Various public and professional agencies make arbitrators and mediators available. For example, the American Arbitration Association (AAA) represents and provides the services of thousands of arbitrators and mediators to employers and unions.

STRIKES A **strike** is a withdrawal of labor. There are four main types of strikes. An **economic strike** results from a failure to agree on the terms of a contract. Unions call **unfair labor practice strikes** to protest illegal conduct by the employer. A **wildcat strike** is an unauthorized strike occurring during the term of a contract. A **sympathy strike** occurs when one union strikes in support of the strike of another union.⁶⁰ For example, in sympathy with South Korean Hyundai workers, the United Auto Workers organized a rally outside of Hyundai's technical center in Superior Township, Michigan, and took steps to hold other rallies.⁶¹

Resisting unions isn't unique to American employers, of course. For example, in December 2017, the European airline Ryanair suffered its first-ever pilot strike, just after union talks broke down.⁶²

The likelihood of and severity of a strike depend partly on the parties' willingness to “take a strike.”⁶³ The number of major work stoppages (strikes involving 1,000 workers or more) peaked at about 400 per year between 1965 and 1975, and today average around 20.

Picketing, or having employees carry signs announcing their concerns near the employer's place of business, is one of the first activities to appear during a strike. Its purpose is to inform the public about the existence of the labor dispute and often to encourage them to refrain from doing business with the struck employer.

Employers have several options when employees strike. One is to temporarily shut down the affected area and halt operations. A second is to contract out work to blunt the effects of the strike. A third is to continue operations, perhaps using supervisors and other nonstriking workers. A fourth alternative is hiring replacements for the strikers.

Diminished union influence plus competitive pressures now prompt more employers to replace (or consider replacing) strikers with permanent replacement workers. When the United Steel Workers struck refineries, BP quickly began training replacement workers.⁶⁴ And in a labor dispute a few years ago, the NFL implied even they might use replacement players.⁶⁵



Stacy Walsh Rosenstock/Alamy Stock Photo

Picketing is one of the first activities to occur during a strike. The purpose is to inform the public about the labor dispute.

picketing

Having employees carry signs announcing their concerns near the employer's place of business.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES: STRIKE GUIDELINES

Two experts say that, with a strike imminent, following these guidelines is advisable:

- Pay all striking employees what you owe them on the first day of the strike.
- Secure the facility. Management should control access to the property. Some employers make preparations with special strike security companies to provide security during the strike.⁶⁶
- Notify all customers, and prepare a standard official response to all queries.
- Contact all suppliers and others who will have to cross the picket line. Establish alternative methods of obtaining supplies.
- Arrange for overnight stays in the facility and for delivered meals, if necessary.
- Notify the local unemployment office of your need for replacement workers.
- Photograph the facility before, during, and after picketing. If necessary, install video equipment to monitor picket lines.
- Record all facts concerning strikers' demeanor and activities and such incidents as violence, threats, mass pickets, property damage, or problems.
- Gather the following evidence: number of pickets and their names; time, date, and location of picketing; wording on every sign carried by pickets; and descriptions of picketers' cars and license numbers.⁶⁷ ■

corporate campaign

An organized effort by the union that exerts pressure on the corporation by pressuring the company's other unions, shareholders, directors, customers, creditors, and government agencies, often directly.

OTHER "WEAPONS" Management and labor each have other weapons to break an impasse. The union, for example, may resort to a corporate campaign. A **corporate campaign** is an organized effort by the union to exert pressure on the employer by pressuring the company's other unions, shareholders, corporate directors, customers, creditors, and government agencies.⁶⁸ Thus, the union might surprise members of the board of directors by picketing their homes and organizing a **boycott** of the company's banks.⁶⁹



boycott

The combined refusal by employees and other interested parties to buy or use the employer's products.

TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Unions Go Digital

When it comes to organizing just about any sort of campaign, communication is king, a fact that hasn't been lost on unions. For example, in one survey, 49% of unions said they used Facebook to communicate with members and employees, 23% used Twitter, and 13% used YouTube.⁷⁰ About 92% of unions have a Web site, while 78.1% use e-mail newsletters.⁷¹ The group trying to organize Starbucks workers (the *Starbucks Workers' Union*) started their own Web site (starbucksunion.org).⁷² ■

inside games

Union efforts to convince employees to impede or to disrupt production—for example, by slowing the work pace.

Inside games are union efforts to convince employees to impede or to disrupt production—for example, by slowing the work pace or refusing to work overtime.⁷³ Inside games are basically strikes—albeit “strikes” in which the company continues to pay the employees. In one inside game at a Caterpillar plant, UAW grievances rose from 22 to 336. This tied up workers and management on company time.⁷⁴

For their part, employers can try to break an impasse with lockouts. A **lockout** is a refusal by the employer to provide opportunities to work. The modalities of lockout is specified in the Industrial Disputes Act 1947. It

lockout

A refusal by the employer to provide opportunities to work.

(sometimes literally) locks out employees and prohibits them from doing their jobs (and being paid). The ID Act also has provisions by which lockouts can be declared illegal, or even prohibit lockout.

In the U.S., NLRB views lockouts as an unfair labor practice only when the employer acts for a prohibited purpose. Trying to bring about a settlement on terms favorable to the employer is not a prohibited purpose. Lockouts are not widely used; employers are usually reluctant to cease operations when employees are willing to continue working.

Employers exert other pressure. When Boeing's union resisted accepting new labor concessions at its Washington assembly facility, Boeing began actively considering moving the planned assembly of its new Boeing 777X long-range jet to South Carolina. Boeing's Washington state workers approved a new agreement.⁷⁵

Both employers and unions can seek a court injunction if they believe the other side is causing irreparable harm to the other party. An **injunction** is a court order compelling a party or parties either to resume or to desist from a certain action.⁷⁶

injunction

A court order compelling a party or parties either to resume or to desist from a certain action.

The Contract Agreement or Collective Bargaining Settlement

The actual contract agreement may be a 20- or 30-page document, or longer. It may contain just general declarations of policy, or detailed rules and procedures. The tendency today is toward the longer contract.

The main sections of a typical contract cover subjects such as these: (1) management rights; (2) union security and automatic payroll dues deduction; (3) grievance procedures; (4) arbitration of grievances; (5) disciplinary procedures; (6) compensation rates; (7) hours of work and overtime; (8) benefits: vacations, holidays, insurance, pensions; (9) health and safety provisions; (10) employee security seniority provisions; and (11) contract expiration date.

**Dealing with Disputes and Grievances**

Signing the labor agreement is not the last step in collective bargaining. No labor contract can cover all contingencies and answer all questions. For example, suppose the contract says you can only discharge an employee for “just cause.” You subsequently discharge someone for speaking back to you. Was speaking back to you “just cause?”

The *grievance process* is the process or steps that the employer and union agreed to follow to ascertain whether some action violated the collective bargaining agreement. It is the vehicle for administering the contract day to day. However, this usually involves interpretation only, not negotiating new terms or altering existing ones. The aim is to clarify what those contract points really mean, in the context of addressing grievances regarding things like time off, disciplinary action, and pay.

Sources of Grievances

In practice, it's probably easier to list those items that *don't* precipitate grievances than the ones that do. Employees may use just about anything involving wages, hours, or conditions of employment as the basis of a grievance.

Discipline cases and seniority problems including promotions, transfers, and layoffs would top this list. Others would include grievances growing out of job evaluations and work assignments, overtime, vacations, incentive plans, and holidays.⁷⁷ Here are three examples of grievances:

LEARNING OBJECTIVE 15-4

Develop a grievance procedure.

- **Absenteeism.** An employer fired an employee for excessive absences. The employee filed a grievance stating that there had been no previous warnings related to excessive absences.
- **Insubordination.** An employee on two occasions refused to obey a supervisor's order to meet with him, unless a union representative was present at the meeting. As a result, the employee was discharged and subsequently filed a grievance protesting the discharge.
- **Plant rules.** The plant had a posted rule barring employees from eating or drinking during unscheduled breaks. The employees filed a grievance claiming the rule was arbitrary.⁷⁸

Grievances are often symptoms of underlying problems. Sometimes bad relationships between supervisors and subordinates are to blame: This is often the cause of grievances over “fair treatment,” for instance. Organizational factors like ambiguous instructions also cause frustration and grievances. Union activism is another cause; the union may solicit grievances from workers to underscore ineffective supervision. Some people are by their nature dissatisfied and prone to complaints. Discipline and dismissal are two major sources of grievances.

The Grievance Procedure

grievance procedure

Formal process for addressing any factor involving wages, hours, or conditions of employment that is used as a complaint against the employer.

Most collective bargaining contracts contain a **grievance procedure**. It lists the steps in the procedure, time limits associated with each step, and specific rules such as “all charges of contract violation must be reduced to writing.” Nonunionized employers need such procedures, too.

Grievance procedures differ from firm to firm. Some are simple, two-step procedures. Here, the grievant, union representative, and company representative meet to discuss the grievance. If they don't find a satisfactory solution, the grievance goes before a third-party arbitrator, who hears the case, writes it up, and makes a decision. Figure 15-2 shows a grievance form.

At the other extreme, the grievance procedure may contain six or more steps. The first step might be for the grievant and shop steward to meet informally with the supervisor of the grievant to try to find a solution. The next steps involve the grievant and union representatives meeting with higher-level managers. Finally, if top management and the union can't reach agreement, the grievance may go to arbitration.

Guidelines for Handling Grievances

The best way for a supervisor to handle a grievance is to develop a work environment in which grievances don't arise in the first place. Hone your ability to avoid, recognize, diagnose, and correct the causes of potential employee dissatisfaction (such as unfair appraisals or poor communications) before they become grievances.

Given that many factors including union pressures prompt grievances, it would be naïve to think that grievances arise only due to supervisor unfairness. However, there's little doubt that the quality of the interpersonal relations among you and your subordinates will influence your team's grievance rate. The supervisor is on the firing line and must steer a course between treating employees fairly and maintaining management's rights and prerogatives. The HR Tools feature presents some guidelines.

FIGURE 15-2 Sample
Online Grievance
Form

EMPLOYEE GRIEVANCE FORM

Aggrieved employee _____ Date _____

Department _____ Employee's job title _____

Employee's work email address and/or other contact information _____

Statement of grievance: Briefly state what happened to lead you to grieve, including for instance situation leading to the complaint, who was involved (names and titles), when the occurrence/situation took place (date and time), and where it took place

Why do you consider this a grievance? (please check one) ☐ Contract violation ☐ Unfair treatment

If you checked contract violation, please list contract articles and sections you believe apply

What remedy are you seeking?

Aggrieved employee's signature _____ Date _____

HR officer signature _____ Date _____



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES: HOW TO HANDLE A GRIEVANCE SITUATION

Grievances cost money, in terms of lost work time, productivity, and (possibly) arbitrators' fees. One expert has developed a list of supervisor do's and don'ts as useful guides in handling grievances.⁷⁹ Some critical ones include:

Do:

1. Investigate and handle each case as though it may eventually result in arbitration.
2. Talk with the employee about his or her grievance; give the person a full hearing.
3. Require the union to identify specific contractual provisions allegedly violated.
4. Comply with the contractual time limits for handling the grievance.

5. Visit the work area of the grievance.
6. Determine whether there were any witnesses.
7. Examine the grievant's personnel record.
8. Fully examine prior grievance records.
9. Treat the union representative as your equal.
10. Hold your grievance discussions privately.
11. Fully inform your own supervisor of grievance matters.

Don't:

1. Discuss the case with the union steward alone—the grievant should be there.
2. Make arrangements with individual employees that are inconsistent with the labor agreement.
3. Hold back the remedy if the company is wrong.
4. Admit to the binding effect of a past practice.
5. Relinquish to the union your rights as a manager.
6. Settle grievances based on what is “fair.” Instead, stick to the labor agreement.
7. Bargain over items not covered by the contract.
8. Treat as subject to arbitration claims demanding the discipline or discharge of managers.
9. Give long written grievance answers.
10. Trade a grievance settlement for a grievance withdrawal.
11. Deny grievances because “your hands have been tied by management.”
12. Agree to informal amendments in the contract. ■

LEARNING OBJECTIVE 15-5

Give an example of cooperative labor relations.

The Union Movement Today and Tomorrow

Union membership has decreased from about 20% of the U.S. workforce in 1983 (when 17.8 million workers belonged to unions) to about 11.1% (just over 14 million workers) recently.⁸⁰

Several factors contributed to the decline. Unions traditionally appealed mostly to blue-collar workers, and the proportion of blue-collar jobs has been decreasing. Globalization increased competition and pressured employers to cut costs and boost productivity, often by shifting production offshore. Other factors pressuring employers and unions included the deregulation of trucking, airlines, and communications, and laws (such as occupational safety) that somewhat reduced the need for unions. Automation displaced still more blue-collar (and other) workers. The poor economy after the 2007–2008 recession triggered public- and private-sector budget cuts and the loss of about one million public-sector union jobs. And, bankruptcies often end with courts imposing less-union employees.⁸¹

The net effect has been the permanent layoff of hundreds of thousands of union members, the permanent closing of company plants, the relocation of companies to nonunion settings (either in the United States or abroad), and mergers and acquisitions that eliminated union jobs and affected collective bargaining agreements. That's why union membership as a percentage of people working has dropped by about two-thirds over 50 years, to about 11%.⁸²

What Are Unions Doing About It?

Of course, unions aren't sitting idly by. For example, the Change to Win Coalition (representing about 5.5 million workers) will strive, through "innovative campaigns in the private-sector economy . . . to ensure that every working person has a living wage, benefits to support their family and dignity in retirement."⁸³ The AFL–CIO also continues to press its case, for instance opposing new tax laws that it said would "kill jobs," and opposing a bill that would "slash support for health programs that benefit working families."⁸⁴

Unions are also increasingly successful organizing new-economy firms. For example, writers at Slate and Salon joined the Writers Guild of America East.⁸⁵ Why are these workers unionizing? The companies may be "new," but the reasons are pretty traditional. For example, at Vice Media, fair wages reportedly played a big role. And when the publisher Ziff Davis bought Mashable, it laid off 50 employees; those staying may have read this as a sign that they had to protect themselves.⁸⁶

Unions are also becoming more proactive in coordinating their efforts. For example, to support its efforts to unionize Nissan autoworkers in the United States, the UAW enlisted union members in Brazil to picket Nissan dealerships there.⁸⁷ The same is happening in reverse. When Daimler said it was going to phase out producing its "C" cars in Germany and begin producing them in the United States, its German union, IG Metall, began cooperating with the UAW to unionize Daimler's American plants.⁸⁸

Cooperative Labor–Management Relations

News reports tend to highlight adversarial labor–management relations, but the history of labor–management relations is also sprinkled with cooperation.

For example, more than 50 years ago, General Motors and Toyota created a joint venture they called New United Motor Manufacturing Inc. (NUMMI). NUMMI reopened a former GM plant (in what today produces Tesla automobiles) in Fremont, California. The GM plant had suffered from such poisonous labor relations that GM had to close it. The new partners hoped to merge GM's marketing expertise with Toyota's famous team-based management system.⁸⁹ NUMMI and the UAW agreed that management and labor would work together as a team, give workers a voice in decision making, and build the highest-quality cars at the lowest cost. The plant was soon very successful (although the parties ultimately ended their joint venture). In India, organizations like Tata Steel, TVS group, Thermax, etc., are known for promoting co-operative labor management relations.

Since then, many labor–management agreements have included cooperative agreements and clauses, such as a statement of commitment to cooperate, and/or setting up committees to review mutual concerns that arise, and/or guarantees of employment security. But with or without such contractual commitments, there's little doubt, as one study argues, that unions "that have a cooperative relationship with management can play an important role in overcoming barriers to the effective adoption of practices that have been linked to organizational competitiveness."⁹⁰ However employers who want to capitalize on that potential must change how they think, by emphasizing a cooperative partnership.⁹¹

Chapter Review

Chapter Section Summaries

- 15-1. The **labor movement** is important. Workers unionize not just to get more pay or better working conditions; employer unfairness and the union's power are also important. Unions aim for union security, and then for improved wages, hours, and working conditions and benefits for their members. Union security options include the closed shop, union shop, agency shop, preferential shop, and maintenance of membership arrangement.
- 15-2. To understand how to deal with unions, one should understand labor law and **unfair labor practices**.
- 15-3. When unions begin organizing, any manager may get involved, so one must understand the mechanics of **the union drive and election**. Supervisors can follow the acronym TIPS—do not Threaten, Interrogate, make Promises, or Spy. And follow FORE—provide Facts, express your Opinions, explain factually correct Rules, and share your Experiences.
- 15-4 The employer and union hammer out an agreement via the **collective bargaining process**. The heart of collective bargaining is

good faith bargaining, which means both parties must make reasonable efforts to arrive at agreement, and proposals are matched with counterproposals. There are mandatory bargaining items such as pay, illegal bargaining items, and voluntary bargaining items such as benefits for retirees. If things don't go smoothly during bargaining, the parties may utilize third-party intermediaries, including mediators, fact finders, and arbitrators. Strikes represent a withdrawal of labor.

- 15-5. A manager may become involved with **disputes and grievances**. Collective bargaining agreements contain a specific grievance procedure listing the steps in the procedure. The best way to handle a grievance is to create an environment in which grievances don't occur. If one does occur, investigate, handle each case as though it may lead to arbitration, talk with the employee about the grievance, and comply with the contractual grievance-handling time limits.

Discussion Questions

- 15-1. Why do employees join unions? What are the advantages and disadvantages of being a union member?
- 15-2. Briefly illustrate how labor law has gone through a cycle of repression and encouragement.
- 15-4. Explain in detail each step in a union drive and election.
- 15-5. Define impasse, mediation, and strike, and explain the techniques that are used to overcome an impasse.

Individual and Group Activities

- 15-6. You are the manager of a small manufacturing plant. The union contract covering most of your employees is about to expire. Working individually or in groups, discuss how to prepare for union contract negotiations.
- 15-7. Working individually or in groups, use Internet resources to find situations where company management and the union reached an impasse at some point during their negotiation

process, but eventually resolved the impasse. Describe the issues on both sides that led to the impasse. How did they move past the impasse? What were the final outcomes?

- 15-8. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human



resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.

15-9. Several years ago, 8,000 Amtrak workers agreed not to disrupt service by walking out, at least not until a court hearing was held. Amtrak had asked the courts for a temporary restraining order, and the Transport Workers Union of America was actually pleased to postpone its walkout. The workers were apparently not upset at Amtrak, but at Congress for failing to provide enough funding for Amtrak. What, if anything, can an employer do when employees threaten to go on strike, not because of what the employer did, but what a third party—in this case, Congress—has done or not done? What laws would prevent the union from going on strike in this case?

Experiential Exercise

The Organizing Campaign at Sam's Cupcake Shop

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice in dealing with some of the elements of a union-organizing campaign.⁹²

Required Understanding: You should be familiar with the material covered in this chapter, as well as the following incident, “The Organizing Campaign at Sam's Cupcake Shop.”

Incident: Sam's Cupcake Shop sells baked goods (croissants, cupcakes, rolls, cakes, etc.) and serves light meals such as breakfast and salads through its chain of ten small retail stores in the borough of Manhattan, in New York City. Each store is staffed with about 9 employees (plus one manager), some of whom do the cooking and some of whom staff the counter and sell the food items. As with Sam's other stores, the Sam's Cupcake Shop on First Avenue is staffed mostly with recent (legal) immigrants to America, all of whom are paid at or just above the minimum wage. Everything at the First Avenue store seemed to be going smoothly, but that apparent tranquility ended abruptly on July 27, 2018. That was the day that Anesha, the First Avenue store's manager, called Taylor Brooke, Sam's Cupcake's human resource manager, to tell her that they had “an employee problem.”

The problem, Anesha said, was that she'd heard from a few employees that the Service Employees International Union was trying to organize Sam's Cupcake Shop employees. Taylor's first reaction was one of caution, particularly because food service employees are historically difficult to organize—“they don't stay in their jobs long enough to unionize them,” to paraphrase one union leader.⁹³ Unfortunately, Anesha said she had already taken what she called “sensible steps” to blunt the unionization effort. She had, first, explained to her employees that if costs went up because they unionized, then “we'd probably have to close this shop.” She said she also promised better work schedules if they “ignored” the union, and told them they were prohibited from discussing union matters during work time. “And don't worry” she said to Taylor, “I've got a list of the employees who are pushing for the union.”

The more Anesha talked, the more concerned Taylor became, not just with the union but with the possible consequences of Anesha's efforts. She wondered particularly if Anesha's actions could cause problems down the road for Sam's Cupcakes with the NLRB.

She didn't have long to wait for an answer. The following week pickets from the union and its supporters appeared in front of the First Avenue store carrying signs decrying the company's “unfair labor practices.” At that point Sam came into Taylor's office and said, “If they think they can railroad me into giving them big raises they

are wrong; I am closing that store down.” Taylor was in a quandary as to how to reply to Sam, and in general, what she should do.

How to Set Up the Exercise/Instructions: Divide the class into groups of several students. Assume that you are labor relations consultants retained by Taylor to identify the problems and issues involved and to advise Taylor and Sam of the company’s rights and obligations, as well as the

implications of what’s transpired so far, and finally what to do next. Each group will spend the time allotted discussing the issues. Then, outline those issues, as well as an action plan for Taylor and Sam. What should they do next? Can Sam really close the store down?

If time permits, a spokesperson from each group should list on the board the issues involved and the group’s recommendations.

Application Case

Organizing New Media Employees at Vice Media

Written and copyrighted by Gary Dessler, PhD.

In 2016 Vice Media and the Writers Guild of America (WGA) agreed on a contract covering about 70 people in Vice Media digital businesses.⁹⁴ In 2017 another 430 Vice Media employees voted to unionize. Many of them work on video content for Vice.com and Vice-branded HBO programs. Some joined the WGA East, and some the Motion Pictures Editors Guild. With “new media” growing fast, what’s happening at Vice Media illustrates the union challenges new media firms face today.

Vice Media began as an edgy magazine in the 1990s. Today, in addition to its print arm, it has morphed into an online news source with channels including Noisey, Garage, and Motherboard, a Viceland cable channel (among others), and mobile platforms. Walt Disney Company made a \$400 million investment in Vice, and Vice Media recently got a \$450 million investment from a private equity firm. Some of this new money will go to developing scripted programming for Vice’s Viceland cable channel and mobile platforms. In any case, it’s obvious that, as at other new-media firms like BuzzFeed and Vox, content creators—writers, editors, and so on—are the lifeblood of the company. That makes labor relations a central issue for companies like these.

For unions, the new-media workforce represents one of the best opportunities in years for union membership to start growing again. Unions like the WGA are therefore pursuing these employees. In doing so, they’re emphasizing the things millennial workers seem to care about the most, not just wage increases, but editorial independence and diversity.

To help unionize firms like these, unions are holding networking events, and headlining them with employees from new-media firms that they’ve organized. For example, one union let unionized writers from *The Daily Show* explain the advantages of union membership.

Some new-media companies (including Vice Media) were fairly welcoming of the unions, while others were more combative. For example, BuzzFeed’s CEO reportedly took a strong stance against the “adversarial” nature of unionization.

Therefore, things don’t always go well for new-media employees who do organize. For example, the owner of Gothamist and

DNAinfo closed both sites after employees voted to unionize. The owner had warned that it was already running both sites at a loss.

Unions and new-media employers therefore have to understand what new-media employees—many or most of whom are millennials—want from employers. And it turns out that what they want isn’t that different from what workers have always wanted. In addition to editorial independence, they want good pay and benefits, fair treatment, and the ability to be heard.

Employers who hoped that the glamour of writing for a fast-growing new-media firm might be enough to keep workers from unionizing were wrong. For one thing (to paraphrase one Vice Media channel editor), after Mashable laid off 50 employees and BuzzFeed fired 100, anxiety began prompting employees to unionize. Many (or most) of these employees went to good schools and got good jobs, only to find that journalists’ average pay is low and turnover is high: Many were on their second or third jobs just a few years after college. It’s probably not surprising that one study found that 46% of people 30 and over view unions favorably, while 55% of those 18 to 29 have favorable views.

Furthermore, both the new-media firms and their employees have evolved. For example, many firms, including Vice Media, began as what one writer called the “lawless cowboys” of new media. But as they and their employees aged, the writers and employees wanted more stability.

Questions

- 15-10. The WGA did not have to call a strike at Vice. Why do you think that is? If they struck, what employer tactics would you have suggested to fight back once the strike began?
- 15-11. What do you think accounts for the fact that Vice Media agreed fairly quickly to recognize the union, whereas other new-media firms simply closed down? What does this mean for unions like the WGA?
- 15-12. The organizing campaigns at new-media firms like Vice and BuzzFeed are essentially conflicts between professional and creative people (the WGA) and owners and TV and movie producers. Do you think such conflicts are different in any way than are the conflicts between, say, the United Auto-workers or Teamsters unions against auto and trucking companies? Why?
- 15-13. If you owned a start-up new-media company, how would you react to a union coming in to demand recognition, and why?

Continuing Case

Carter Cleaning Company

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The Grievance

On visiting one of Carter Cleaning Company's stores, Jennifer was surprised to be taken aside by a long-term Carter employee, who met her as she was parking her car. "Murray (the store manager) told me I was suspended for 2 days without pay because I came in late last Thursday," said George. "I'm really upset, but around here the store manager's word seems to be law, and it sometimes seems like the only way anyone can file a grievance is by meeting you or your father like this in the parking lot." Jennifer was very disturbed by this revelation and promised the employee she

would look into it and discuss the situation with her father. In the car heading back to headquarters, she began mulling over what Carter Cleaning Company's alternatives might be.

Questions

- 15-14. Do you think it is important for Carter Cleaning Company to have a formal grievance process? Why or why not?
- 15-15. Based on what you know about the Carter Cleaning Company, outline the steps in what you think would be the ideal grievance process for this company.
- 15-16. In addition to the grievance process, can you think of anything else that Carter Cleaning Company might do to make sure grievances and gripes like this one are expressed and are heard by top management?

Translating Strategy into HR Policies and Practices Case[§]

Improving Performance at the Hotel Paris

The Hotel Paris's New Labor Relations Practices

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance by eliciting the required employee behaviors and competencies.

Lisa Cruz's parents were union members, and she had no strong philosophical objections to unions, *per se*. However, as the head of HR for the Hotel Paris, she did feel very strongly that her employer should do everything legally possible to remain union-free. She knew that this is what the hotel chain's owners and top executives wanted, and that achieving their strategic goals would be best accomplished by staying union-free. Furthermore, the evidence seemed to support their position. At least one study that she'd seen concluded that firms with 30% or more of their eligible workers in unions were in the bottom 10% in terms of performance, while those with 8% to 9% of eligible workers in unions scored in the top 10%.^{§5} The problem was that the Hotel Paris really had no specific policies and procedures in place to help its managers and supervisors deal with union activities. With all the laws regarding what employers and their managers could and could not do to respond to a union's efforts, Lisa knew her company was "a problem waiting to happen." She turned her attention to deciding what steps she and her team should take with regard to labor relations and collective bargaining.

Lisa and the CFO knew that unionization was a growing reality for the Hotel Paris. Some of the hotel chain's U.S. employees were already unionized, and unions in this industry were quite active. For example, as they were surfing the Internet to better gauge the situation, Lisa and the CFO came across the Web site from the Hotel Employees Restaurant

Union, Local 26. It describes their success in negotiating a contract at several local hotels including ones managed by the Westin and Hilton chains. The CFO and Lisa agreed that it was important that she and her team develop and institute a new set of policies and practices that would enable the Hotel Paris to deal more effectively with unions.

Together with a labor-management attorney, the team developed a 20-page "What You Need to Know When the Union Calls" manual for Hotel Paris managers and supervisors. This contained three sets of information. First, it provided a succinct outline of *labor relations law*, particularly as it relates to the company's managers. Second, it laid out a *detailed set of guidelines* regarding what supervisors could and could not do with respect to union-organizing activities. Third, it identified all line supervisors as the company's "*front-line eyes and ears*" with respect to union organizing activity. Here, the manual provided examples of activities that might suggest that a union was trying to organize the hotel's employees, and whom the supervisor should notify.

Lisa and her team also decided to ensure that the company was responsive to its employees' concerns. Lisa and her team believed that many of the steps they'd taken earlier should help. For example, improving salaries and wages, providing financial incentives, and instituting the new ethics, justice, and fairness programs already seemed to be having a measurable effect on employee morale.

Questions

- 15-17. List and briefly describe what you believe are the three most important steps Hotel Paris management can take now to reduce the likelihood unions will organize more of its employees.
- 15-18. Write a detailed two-page outline for a "What You Need to Know When the Union Calls" manual. Lisa will distribute this manual to her company's supervisors and managers, telling them what they need to know about looking out for possible unionizing activity, and how to handle actual organizing process-related supervisory tasks.

^{§5} Written and copyrighted by Gary Dessler, PhD. Writing Assignments

Key Terms

closed shop, 550	decertification, 561	mediation, 565	wildcat strike, 566
union shop, 550	collective bargaining, 562	fact finder, 565	sympathy strike, 566
agency shop, 550	good faith bargaining, 562	arbitration, 565	picketing, 566
preferential shop, 550	voluntary (or permissible) bargaining items, 564	interest arbitration, 565	corporate campaign, 567
right to work, 550	illegal bargaining items, 564	rights arbitration, 565	boycott, 567
Taft–Hartley Act of 1947, 552	mandatory bargaining items, 564	strike, 565	inside games, 567
union salting, 556	impasse, 565	economic strike, 565	lockout, 567
authorization cards, 557		unfair labor practice strike, 565	injunction, 567
bargaining unit, 559			grievance procedure, 568

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16

Safety, Health, and Risk Management

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 16-1** Explain the supervisor's role in safety.
- 16-2** Explain the basic facts about safety law and other laws.
- 16-3** Answer the question, "What causes accidents?"
- 16-4** List and explain ways to prevent accidents at work.
- 16-5** Describe how one company uses employee engagement to improve workplace safety.
- 16-6** List five workplace health hazards and how to deal with them.
- 16-7** Discuss the prerequisites for a security plan and how to set up a basic security program.

The gas tragedy that stuck Bhopal City in Madhya Pradesh, India on December 3, 1984 is considered as the worst industrial accident till date. Poisonous gas leaked from the Union Carbide India's factory affecting both employees and population living nearby, estimated to be around 5.5 lakhs. Even after 35 years, the effect of the accident continues to impact the survivors. The incident invited attention to managing safety at the workplace.²



WHERE ARE WE NOW . . .

Over 80% of the workers in one survey ranked workplace safety more important than minimum wages, sick days, and maternity leave.¹ The main purpose of this chapter is to provide you with knowledge managers need to reduce workplace safety and health problems. The main topics we discuss are **Safety and the Manager, Manager's Briefing on Occupational Safety Law, What Causes Accidents, How to Prevent Accidents, Employee Engagement-Based Safety Programs, Workplace Health Hazards—Problems and Remedies, and Occupational Security and Risk Management.**

LEARNING OBJECTIVE 16-1

Explain the supervisor's role in safety.

Introduction: Safety and the Manager

Why Safety Is Important

Several years ago while filming *Star Wars/The Force Awakens*, a hydraulic door on the Millennium Falcon spaceship slammed Harrison Ford. He couldn't work for several weeks, but thankfully wasn't injured seriously.³ In August 1982, Actor Amitabh Bachchan also faced a near fatal accident while shooting for the film *Coolie*. During the recovery phase, he also was infected with Hepatitis B which impacted his liver functioning.⁴

Safety and accident prevention concern managers for several reasons, one of which is the staggering number of workplace accidents. For example, in one recent year, at least 5,190 people died at work, up from about 4,800 the year before.⁵ Workplace accidents caused about 2.9 million occupational injuries and illnesses.⁶ According to fatal industrial accident results analyses in India's biggest 13 companies compiled by a leading newspaper, 121 fatal cases (death due to industrial accidents) were reported during FY 18. The numbers were 120 and 96 during FY 16 and FY 17 respectively.⁷ The data for the above was compiled from the sustainability reports published by companies. An interesting observation was that firms which are part of the Sensex has a better safety record and shows improvement over time. A 2017 report by British Safety Council on industrial accidents in India indicates that 48,000 industrial workers die annually. The construction sector itself accounts for 38 deaths each day.⁸

Such figures probably underestimate injuries and illnesses by two or three times.⁹ And they ignore the suffering the accidents cause the employee and his or her loved ones.¹⁰ Safety also affects costs and profits, as the accompanying Profit Center feature illustrates.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Improving Safety Boosts Profits

Many people assume that when employers economize on safety programs the money they save improves profits, but that's not the case. For one thing, poor safety practices raise wage rates, because wage rates are higher on jobs with riskier working conditions, other things equal.¹¹ And poor safety and the injuries and illnesses it begets actually drive up costs, including medical expenses, workers' compensation, and lost productivity.¹²

Consider the evidence. One study found a 9.4% drop in injury claims and a 26% average savings on workers' compensation costs over 4 years in companies inspected by California's occupational safety and health agency.¹³ A study of Traffic Police Constables in Ahmedabad showed that the constables manning traffic junctions face heavy stress and unsafe working conditions than the proposed higher levels in outdoor during the long summer months.¹⁴ A survey of chief financial officers concluded that for every one dollar invested in injury prevention, the employer earns two dollars; 40% said "productivity" was the top benefit of effective workplace safety.¹⁵ One forest products company saved over \$1 million over 5 years by investing only about \$50,000 in safety improvements and employee training. In the United States, work-related hearing loss costs employers about \$242 million a year in workers' compensation claims alone, costs that are probably avoidable through earmuffs, earplugs, and training.¹⁶ So one of the easiest ways to cut costs and boost profits is to spend money improving safety. ■



Injuries aren't just a problem in dangerous industries like construction. For example, computers contribute to airtight "sick building" symptoms like headaches. And office work is susceptible to problems like repetitive trauma injuries.

Top Management's Role in Safety

Several years ago an energy company's CEO was convicted over the deaths of 29 workers in a coal mine.¹⁷ His conviction highlights the fact that the people at the top—the CEO, president, and board members—must set the tone for occupational safety.¹⁸ In the case of Bhopal gas tragedy, in 2010 an Indian court sentenced eight senior executives including union Carbide CEO to a 2 year prison term. The court also awarded compensation to the affected people.¹⁹

We will see that reducing accidents often boils down to reducing accident-causing conditions and accident-causing acts. However, telling employees to "work safely" is futile unless everyone knows management takes safety seriously.²⁰ Historically, for instance, Milliken & Company's accident rate has been lower than that of the chemical industry as a whole. Its safety record largely reflects Milliken's organizational commitment to safety, as reflected in this quote from a Milliken company blog:

We've all heard the saying, "lead by example," and when it comes to creating a successful safety culture, this saying still rings true. In fact, the tone for safety is usually set from the top. Moving safety from "just another program" to an uncompromised value within the organization that everyone respects and follows will ensure its success.²¹

The Strategic Context feature further illustrates this.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Deepwater Horizon

To critics of BP's safety practices, the Deepwater Horizon disaster in the Gulf wasn't just due to a malfunctioning blowout preventer.²² To them, rightly or wrongly, the accident reflected the fact that BP's corporate strategy had long emphasized cost-cutting and profitability at the expense of safety. For example, 5 years earlier, a report by the Chemical Safety Board blamed a huge blast at BP's Texas City, Texas, oil refinery on cost-cutting, and on a safety strategy that aimed to reduce accidents but left in place "unsafe and antiquated equipment." To that board and to some others who studied BP's safety practices, Deepwater was another example of how encouraging safe employee behavior must start at the top, and how top management's strategy can trump even earnest efforts to improve employee safety behaviors.²³ A subsequent movie, *Deepwater Horizon*, depicts a BP executive, visiting the rig and annoyed by drilling delays, pressing the crew to ignore test results that in fact accurately showed the rig about to blow.

In sum, employers should institutionalize their commitment with a safety policy, publicize it, and give safety matters high priority. Louisiana-Pacific Corp. starts all meetings with a brief safety message.²⁴ In case of Larsen and Toubro Ltd. (L&T), the importance of workplace safety is inculcated in the culture of the company. The senior management reviews the workplace health and safety policy regularly with an aim to create an accident free workplace. The company uses digital technology like e-learning, virtual reality training and RFID tracking of material movement to improve safety performance in its offices and project sites. In addition to employees, contract workers are also

covered in safety initiatives.²⁵ Georgia-Pacific reduced its workers' compensation costs by requiring that managers halve accidents or forfeit 30% of their bonuses. ABB Inc. requires its top executives to make safety observation tours of the company's facilities, sites, and projects at least quarterly.²⁶

The Supervisor's Role in Accident Prevention

After inspecting a work site in which workers were installing sewer pipes in a 4-foot trench, the Occupational Safety & Health Administration (OSHA) U.S. inspector cited the employer for violating the OSHA rule requiring employers to have a "stairway, ladder, ramp or other safe means of egress."²⁷ In the event the trench caved in, workers needed a quick way out.²⁸ In India, similar observations can be made by the Safety Inspectors appointed by under different legislations (currently being consolidated into a single "The Occupational Safety, Health and Working Conditions Code, 2019").

As in most such cases, the employer had the primary responsibility for safety, but the local supervisor at the site was responsible for day-to-day inspections. Here, the supervisor did not properly do his daily inspection. The trench did cave in, injuring workers (and, secondarily, costing his company many thousands of dollars).

Whether you're an IT department manager in a *Fortune* 500 company or managing an excavation or dry-cleaning store, daily safety inspections should be part of your routine. As one safety recommendation put it, "a daily walk-through of your workplace—whether you are working in outdoor construction, indoor manufacturing, or any place that poses safety challenges—is an essential part of your work."²⁹

What to look for depends on the workplace. For example, construction sites and dry-cleaning stores have hazards all their own. But in general, you can use a checklist of unsafe conditions such as the one in Figure 16-5 (pages 591–593) to spot problems. We present another, more extensive checklist in Figure 16-7 (pages 615–618) at the end of this chapter. (Note: Please stop what you are reading and look around where you are now: Can you list four potential safety hazards?)



LEARNING OBJECTIVE 16-2

Explain the basic facts about safety law and OSHA.

Occupational Safety Law (U.S.)

The U.S. Congress passed the **Occupational Safety and Health Act of 1970**³⁰ "to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources."³¹ The only employers it doesn't cover are self-employed persons, farms in which only immediate members of the employer's family work, and some workplaces already protected by other federal agencies or under other statutes. The act covers federal agencies, but usually not state and local governments.

The act created the **Occupational Safety and Health Administration (OSHA)** within the Department of Labor. OSHA's basic purpose is to administer the act and to set and enforce the safety and health standards that apply to almost all workers in the United States. OSHA has about 2,200 inspectors working from branches around the country.³² Its exact enforcement direction was recently in flux. However, OSHA and many employers continue to emphasize OSHA's cooperative programs, such as its Voluntary Protection Program (VPP). VPP exempts from routine inspections those employers who have OSHA-approved policies and programs and below-average injury and illness rates.³³

Occupational Safety and Health Act of 1970

The law passed by Congress in 1970 "to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources."

occupational illness

Any abnormal condition or disorder caused by exposure to environmental factors associated with employment.

WHAT THE EMPLOYER MUST REPORT Employers must report *all* occupational illnesses.³⁴ They must also report most occupational injuries, specifically those that result in medical treatment (other than first aid), loss of consciousness, restriction of work (one or more lost workdays), restriction of motion, or transfer to another job.³⁵ If an on-the-job accident results in the death of an employee, all employers, regardless of size, must report the accident to the nearest OSHA office. If even one employee is hospitalized for inpatient treatment because of a work-related incident, the employer must notify OSHA within 24 hours.³⁶

Similarly, OSHA's record-keeping requirements are broad.³⁷ Examples of recordable conditions include any work-related fatality, any work-related injury or illness that results in loss of consciousness, days away from work, restricted work, or transfer to another job, and any work-related injury or illness requiring medical treatment beyond first aid.

Figure 16-3 shows the OSHA form for reporting occupational injuries or illness.

FIGURE 16-1 OSHA Standards Example

Source: From Occupational Safety and Hazard Administration (OSHA). Retrieved from https://www.osha.gov/pls/oshaweb/owadisp.show_document?p_table=STANDARDS&p_id=9720.

Guardrails not less than 2" × 4" or the equivalent and not less than 36" or more than 42" high, with a midrail, when required, of a 1" × 4" lumber or equivalent, and toeboards, shall be installed at all open sides on all scaffolds more than 10 feet above the ground or floor. Toeboards shall be a minimum of 4" in height. Wire mesh shall be installed in accordance with paragraph [a] (17) of this section.

Inspections and Citations

OSHA enforces its standards through inspections and (if necessary) citations. The inspection is usually unannounced. OSHA may not conduct warrantless inspections without an employer's consent. It may inspect with an authorized search warrant.³⁸ With a limited number of inspectors, OSHA has focused on "fair and effective enforcement," combined with outreach, education and compliance assistance, and OSHA–employer cooperative programs (such as its Voluntary Protection Programs).³⁹

PENALTIES OSHA can impose penalties. These generally range from \$5,000 up to \$150,000 for willful or repeat serious violations but can be far higher—\$13 million after a tragedy at BP's Texas City plant, for instance.⁴⁰ (The parties settle many OSHA cases before litigation, in "pre-citation settlements.")⁴¹ OSHA issues the citation and agreed-on penalties simultaneously, after the employer initiates negotiation settlements.⁴² Nonserious violations may carry no penalties.

In general, OSHA calculates penalties based on the gravity of the violation, usually taking into consideration things like the size of the business, the firm's compliance history, and the employer's good faith (although not for willful violations).⁴³ OSHA must have a final order from the independent Occupational Safety and Health Review Commission to enforce a penalty.⁴⁴ An employer who files a notice of contest can drag out an appeal for years.⁴⁵ OSHA publicizes its inspection results online. Its Web site (www.osha.gov) provides easy access to most companies' (or competitors') OSHA enforcement history.⁴⁶

Responsibilities and Rights of Employers and Employees

Both employers and employees have responsibilities and rights under the Occupational Safety and Health Act. *Employers* are responsible for providing

“a workplace free from recognized hazards,” for being familiar with mandatory OSHA standards, and for examining workplace conditions to make sure they conform to OSHA standards.⁴⁷ Employers have the right to seek advice and off-site consultation from OSHA, request and receive proper identification of the OSHA compliance officer before inspection, and to be advised by the compliance officer of the reason for an inspection.

Employees also have rights and responsibilities, but OSHA can’t cite them for violations of their responsibilities. Employees are responsible, for example, for complying with all applicable OSHA standards, for following all employer safety and health rules and regulations, and for reporting hazardous conditions to the supervisor. They have the right to demand safety and health on the job without fear of punishment. Retaliating against employees for reporting injuries or safety problems is illegal (see the OSHA safety poster in Figure 16-4 Page 588).⁴⁸

DEALING WITH EMPLOYEE RESISTANCE IN HEALTH AND SAFETY Although employees are responsible to comply with health and safety standards, they often resist; the employer usually remains liable for any penalties. The refusal of some workers to wear hard hats or protection equipments typifies this problem.

Employers have attempted to defend themselves by citing worker intransigence. In most cases, courts still hold employers liable for workplace safety violations. While dealing with a workplace injury, the employer may claim employee misconduct and initiate action. Service conditions/standing orders have provisions that categorize intentional safety lapses as offence. The key here is to provide documented evidence that the employee was properly trained to do the job the right way but did not.⁴⁹ But the only sure way to eliminate liability is to make sure that no accidents occur.

FIGURE 16-2 Manager’s OSHA Inspection Guidelines

Source: Patricia Polle, “When OSHA Knocks,” *Occupational Hazards*, February 2008, pp. 59–61; Robert Grossman, “Handling Inspections: Tips From Insiders,” *HR Magazine*, October 1999, pp. 41–50; and “OSHA Inspections,” https://www.osha.gov/OshDoc/data_General_Facts/factsheet-inspections.pdf, accessed August 18, 2018

Initial Contact

- Refer the inspector to your OSHA coordinator.
- Check the inspector’s credentials.
- Ask why he or she is inspecting. Is it a complaint? Programmed visit? Fatality or accident follow-up? Imminent danger investigation?
- If the inspection is the result of a complaint, the inspector won’t identify the complainant, but you are entitled to know whether the person is a current employee.
- Notify your OSHA counsel, who should review all requests from the inspector for documents and information. Your counsel also should review the documents and information you provide to the inspector.

Opening Conference

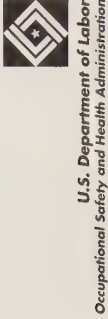
- Establish the focus and scope of the planned inspection: Does the inspector want to inspect the premises or simply study your records?
- Discuss the procedures for protecting trade-secret areas, conducting employee interviews, and producing documents.
- Show the inspector that you have safety programs in place. He or she may not go to the work floor if paperwork is complete and up-to-date.

Walk-Around Inspection

- Accompany the inspector and take detailed notes.
- If the inspector takes a photo or video, you should too.
- Ask the inspector for duplicates of all physical samples and copies of all test results.
- Be helpful and cooperative, but don’t volunteer information.
- To the extent possible, immediately correct any violation the inspector identifies.

OSHA's FORM 301 Injury and Illness Incident Report

Attention: This form contains information relating to employee health and must be used in a manner that protects the confidentiality of employees to the extent possible while the information is being used for occupational safety and health purposes.



Form approved OMB no. 1218-0176

Information about the employee

- 1) Full name _____
- 2) Street _____ City _____ State _____ ZIP _____
- 3) Date of birth ____/____/____
- 4) Date hired ____/____/____
- 5) ☐ Male ☐ Female

Information about the physician or other health care professional

- 6) Name of physician or other health care professional _____

- 7) If treatment was given away from the worksite, where was it given?

Facility _____

Street _____ City _____ State _____ ZIP _____

- 8) Was employee treated in an emergency room?

☐ Yes ☐ No

- 9) Was employee hospitalized overnight as an in-patient?

☐ Yes ☐ No

Information about the case

- 10) Case number from the Log _____ (Transfer the case number from the Log after you record the case)
- 11) Date of injury or illness ____/____/____
- 12) Time employee began work ____ AM/PM
- 13) Time of event ____ AM/PM

☐ Check if time cannot be determined

- 14) **What was the employee doing just before the incident occurred?**

Describe the activity, as well as the tools, equipment, or material the employee was using. Be specific. Examples: "climbing a ladder while carrying roofing materials"; "spraying chlorine from hand sprayer"; "daily computer key-entry."

- 15) **What happened?** Tell us how the injury occurred. Examples: "When ladder slipped on wet floor, worker fell 20 feet"; "Worker was sprayed with chlorine when gasket broke during replacement"; "Worker developed soreness in wrist over time."

- 16) **What was the injury or illness?** Tell us the part of the body that was affected and how it was affected; be more specific than "hurt," "pain," or "sore." Examples: "stained back"; "chemical burn, hand"; "carpal tunnel syndrome."

- 17) **What object or substance directly harmed the employee?**

Examples: "concrete floor"; "chlorine"; "radial arm saw." If this question does not apply to the incident, leave it blank.

- 18) **If the employee died, when did death occur?**

Date of death ____/____/____

This *Injury and Illness Incident Report* is one of the first forms you must fill out when a recordable work-related injury or illness has occurred. Together with the *Log of Work-Related Injuries and Illnesses* and the accompanying *Summary*, these forms help the employer and OSHA develop a picture of the extent and severity of work-related incidents.

Within 7 calendar days after you receive information that a recordable work-related injury or illness has occurred, you must fill out this form or an equivalent. Some state workers' compensation, insurance, or other reports may be acceptable substitutes. To be considered an equivalent form, any substitute must contain all the information asked for on this form.

According to Public Law 91-596 and 29 CFR 1904, OSHA's recordkeeping rule, you must keep this form on file for 5 years following the year to which it pertains.

If you need additional copies of this form, you may photocopy and use as many as you need.

Completed by _____

Title _____

Phone (____) ____-____ Date ____/____/____

Public reporting burden for this collection of information is estimated to average 22 minutes per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Persons are not required to respond to the collection of information unless it displays a current valid OMB control number. If you have any comments about this estimate or any other aspects of this data collection, including suggestions for reducing this burden, contact: US Department of Labor, OSHA Office of Statistical Analysis, Room N-3644, 200 Constitution Avenue, NW, Washington, DC 20210. Do not send the completed forms to this office.

FIGURE 16-3 Form Used to Record Occupational Injuries and Illnesses
Source: U.S. Department of Labor.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Sitedocs Digital Workplace Safety

Safety compliance usually has been managed centrally, by human resource managers or by a specialized safety unit. However, new digital mobile device-based safety systems now give managers and even employees more influence over safety. For example, the SiteDocs digital safety management system lets the employer digitize, move, store, work with, and access safety documents via mobile devices (iPad) and the Web.⁵⁰ Employees can login via the mobile device and view and complete their safety documentation. These become available immediately to management. This enables management to monitor in real time whether employees are completing their documentation and to identify almost at once workplace hazards and incidents. ■



LEARNING OBJECTIVE 16-3

Answer the question, “What causes accidents?”

What Causes Accidents?

There are three basic causes of workplace accidents: chance occurrences, unsafe conditions, and employees’ unsafe acts. Chance occurrences (such as walking past a tree just when a branch falls) are more or less beyond management’s control. We will therefore focus on unsafe conditions and unsafe acts.

What Causes Unsafe Conditions?

Unsafe conditions are a main cause of accidents. They include⁵¹

- Improperly guarded equipment
- Defective equipment
- Hazardous procedures around machines or equipment
- Unsafe storage—congestion, overloading
- Improper illumination—glare, insufficient light
- Spills on floors
- Tripping hazards, such as blocked aisles
- Working from heights, including ladders and scaffolds
- Electrical hazards like frayed cords

The solution here is to identify and eliminate the unsafe conditions. The main purpose of safety standards is to address such mechanical and physical accident-causing conditions. The employer’s safety department (if any) and its human resource managers and top managers should have responsibility for identifying unsafe conditions.

While accidents can happen anywhere, there’s little mystery about where the worst ones occur:⁵² around metal and woodworking machines and saws, transmission machinery (like gears), cutting machines, and conveyors. For example, when a conveyor with liquid chocolate suddenly started, it pulled in and mangled the arm of a worker who was cleaning it.⁵³

About one-third of industrial accidents occur around forklift trucks, wheelbarrows, and other handling and lifting areas. Construction accounts for a disproportionate share of accidents, with falls the major problem.⁵⁴

SAFETY SCHEDULES AND CLIMATE Work schedules and fatigue also affect accident rates. Accident rates usually don’t increase too noticeably during the first 5 or 6 hours of the workday. But after that, the accident rate increases faster.

unsafe conditions

The mechanical and physical conditions that cause accidents.

FIGURE 16-4 OSHA, U.S. Safety Poster

Source: From Job Safety and Health: It's the Law! U.S. Department of Labor. www.osha.gov/Publications/osh3165.pdf, accessed September 9, 2018.

The poster is titled "Job Safety and Health IT'S THE LAW!" and features the OSHA logo. It lists rights for workers and responsibilities for employers.

All workers have the right to:

- A safe workplace
- Raise a safety or health concern with your employer or OSHA, or report a work-related injury or illness, without being retaliated against
- Receive information and training on job hazards, including all hazardous substances in your workplace
- Request an OSHA inspection of your workplace if you believe there are unsafe or unhealthy conditions. OSHA will keep your name confidential. You have the right to have a representative contact OSHA on your behalf.
- Participate (or have your representative participate) in an OSHA inspection and speak in private to the inspector
- File a complaint with OSHA within 30 days (by phone, online or by mail) if you have been retaliated against for exercising your rights.
- See any OSHA citations issued to your employer
- Request copies of your medical records, tests that measure hazards in the workplace, and the workplace injury and illness log

Employers must:

- Provide employees a workplace free from recognized hazards. It is illegal to retaliate against an employee for using any of their rights under the law, including raising a health and safety concern with you or with OSHA, or reporting a work-related injury or illness
- Comply with all applicable OSHA standards
- Report to OSHA all work-related fatalities within 8 hours, and all inpatient hospitalizations, amputations and losses of an eye within 24 hours
- Provide required training to all workers in a language and vocabulary they can understand
- Prominently display this poster in the workplace
- Post OSHA citations at or near the place of the alleged violations

FREE ASSISTANCE to identify and correct hazards is available to small and medium-sized employers, without citation or penalty, through OSHA-supported consultation programs in every state

This poster is available free from OSHA

Contact OSHA. We can help.

1-800-321-OSHA (6742) • TTY 1-800-321-OSHA • www.osha.gov

This is due partly to fatigue and partly to the fact that accidents occur more often during night shifts. With reduced headcount and more people with second jobs, employee fatigue is a growing problem.⁵⁵ Many employers therefore take steps to reduce employee fatigue, such as banning mandatory overtime.

The workplace “climate” or psychology is very important. In one classic study in the 1990s, a researcher reviewed the fatal accidents offshore oil workers suffered in the British North Sea.⁵⁶ A strong pressure to complete the work as quickly as possible, employees who are under stress, and a poor safety climate—for instance, supervisors who never mentioned safety—were some of the psychological conditions leading to accidents. Similarly, accidents occur more frequently in plants with high seasonal layoff rates, hostility among employees, many garnished wages, and blighted living conditions.

What Causes Unsafe Acts?

Unsafe employee acts (such as running) will undo your efforts to banish unsafe conditions, but there are no easy answers to what causes people to act unsafely.

There is no one explanation for why people behave unsafely. Sometimes the working conditions prompt unsafe acts, as with stressed-out oil rig workers. Sometimes employees don’t get the required training, nor learn safe procedures.⁵⁷

One might assume that some people are just accident prone, but the research isn't clear.⁵⁸ On closer inspection some “accident repeaters” were just unlucky, or may have been more meticulous about reporting their accidents.⁵⁹ However, there is evidence that people who are impulsive, sensation seeking, extremely extroverted, less agreeable, and less conscientious (in terms of being less fastidious and dependable) do have more accidents.⁶⁰ (*Psychology Today* offers an accident-proneness test for about \$7.00.)⁶¹

Furthermore, someone accident prone on one job may not be so on another. For example, personality traits that correlate with filing vehicular insurance claims include *entitlement* (“think there’s no reason they should not speed”), *impatience* (“were ‘always in a hurry’”), *aggressiveness* (“the first to move when the light turns green”), and *distractibility* (“frequently distracted by cell phones, eating, and so on”).⁶²

HR in Action at the Hotel Paris Lisa and the CFO reviewed their company's safety records, and what they found disturbed them deeply. In terms of every safety-related metric they could find, including accident costs per year, lost time due to accidents, workers' compensation per employee, and number of safety training programs per year, the Hotel Paris compared unfavorably with most other hotel chains and service firms. To see how they handled this, see the case on page 619 of this chapter.



How to Prevent Accidents

In practice, accident prevention boils down to reducing unsafe conditions and reducing unsafe acts. Larger firms generally have a chief safety officer (or “environmental health and safety officer”). But in smaller firms, managers, including those from human resources, plant managers, and first-line managers, share these responsibilities.

Small business safety can be particularly problematical: for example, owners might naively overlook crucial safety activities, such as chemical hazards training. There are no easy solutions. However, the firm's HR manager should make sure top management (1) understands the potential problem, and (2) actively seeks solutions, such as having OSHA conduct a safety audit and make recommendations.⁶³

Reducing Unsafe Conditions

Reducing unsafe conditions is the employer's first line of defense. Safety engineers should design jobs to remove or reduce physical hazards. Supervisors play an important role. Checklists as in Figure 16-5 and Figure 16-7 (pages 591–593 and 615–618, respectively) can help identify and remove potential hazards.

Sometimes the solution for an unsafe condition is obvious, and sometimes it's not. For example, obvious remedies for slippery floors include keeping them dry, floor mats, and better lighting. Perhaps less obviously, personal safety gear like slip-resistant footwear can also reduce falls. Cut-resistant gloves reduce the hazards of working with sharp objects.⁶⁴ (Hand injuries account for about 1 million emergency department visits annually by U.S. workers.)⁶⁵ Employees can use stop button devices to cut power to machines.⁶⁶ *Lockout/tagout* is a formal procedure to disable equipment such as power saws, to avoid unexpected activation. It involves disarming the device and affixing a “disabled”

LEARNING OBJECTIVE 16-4

List and explain five ways to prevent accidents at work.

tag to the equipment.⁶⁷ For wearable digital devices such as motion monitors, the employer should determine the device's usability and ascertain that it won't cause unanticipated safety problems.⁶⁸

Reducing unsafe conditions is important in offices too.⁶⁹ For example, get written confirmation that the space meets all building codes; make sure the builder, contractors, and/or landlord follow OSHA standards (for instance, unblocked exits); make sure the lease lets you compel the landlord to fix safety problems; and make sure air ducts are cleaned.



TRENDS SHAPING HR: ROBOTS

With more employees working alongside robots, safety standards are evolving. For example, industrial robots have speed and separation monitoring and safety stops so humans can “hand” them parts without the robot arm hitting them.⁷⁰ Many of the new so-called cobots have digital screen faces with human characteristics. For example, one cobot “glances” in the direction when it’s about to pick something up, to forewarn its human “colleagues.”⁷¹ ■

job hazard analysis

A systematic approach to identifying and eliminating workplace hazards before they occur.

JOB HAZARD ANALYSIS A Yale University science student, working late in a lab, was critically injured when her hair was caught in a spinning lathe. **Job hazard analysis** involves a systematic approach to identifying and eliminating such hazards before they cause accidents.⁷²

Consider a safety analyst looking at the Yale science lab, with the aim of identifying potential hazards. Performing a job hazard analysis here might involve looking at the situation and asking four questions:

- ***What can go wrong?*** A student’s hair or clothing could become caught in the lathe, a rotating object that “catches” it and pulls it into the machine.
- ***What are the consequences?*** The student could receive a severe injury as his or her body part or hair is caught and drawn into the spinning lathe.
- ***How could it happen?*** The accident could happen as a result of the student leaning too close to the lathe while working at the bench, or walking too close to the lathe, or bending to reach for an article that fell close to the lathe.
- ***What are other contributing factors?*** Speed is one contributing factor. The problem would occur so quickly that the student would be unable to take evasive action once the lathe ensnared the hair.

The job hazard analysis should provide the basis for creating countermeasures. For example, given the speed with which such a lathe accident would occur, it’s unlikely that training by itself would suffice. Instead, the lathe area should be ensconced in its own protective casing, and changes made to ensure that the lathe can’t spin unless the student takes action via a foot pedal.

Surprisingly, while workplace injuries are declining, *serious* injuries and fatalities are not. For example, the injury and illness rate dropped by about 40% from 2003 to 2015, but the fatality rate dropped only 15%.⁷³

Employers therefore should particularly focus on serious injuries and fatalities. This starts with identifying high hazard events. For example, accidentally cutting one’s finger with a knife is not as potentially catastrophic as cutting it by catching it in an automated slicing machine. So first identify such potential high hazard events. Then conduct job hazard analyses, and implement preventive steps.⁷⁴

FIGURE 16-5 Supervisor's Safety Checklist

Source: Office of the Chief Information Officer, United States Department of Commerce, http://ocio.os.doc.gov/s/groups/public/@doc/@os/@ocio/@oitpp/documents/content/dev01_002574.pdf, assessed October 15, 2013.

FORM CD-574
(9/02)

U.S. Department of Commerce Office Safety Inspection Checklist for Supervisors and Program Managers

Name:	Division:
Location:	Date:
Signature:	

This checklist is intended as a guide to assist supervisors and program managers in conducting safety and health inspections of their work areas. It includes questions relating to general office safety, ergonomics, fire prevention, and electrical safety. Questions which receive a "NO" answer require corrective action. If you have questions or need assistance with resolving any problems, please contact your safety office. More information on office safety is available through the Department of Commerce Safety Office website at <http://ohrm.doc.gov/safetyprogram/safety.htm>.

Work Environment

Yes	No	N/A	
☐	☐	☒	Are all work areas clean, sanitary, and orderly?
☐	☐	☒	Is there adequate lighting?
☐	☐	☒	Do noise levels appear high?
☐	☐	☒	Is ventilation adequate?

Walking / Working Surfaces

Yes	No	N/A	
☐	☐	☒	Are aisles and passages free of stored material that may present trip hazards?
☐	☐	☒	Are tile floors in places like kitchens and bathrooms free of water and slippery substances?
☐	☐	☒	Are carpet and throw rugs free of tears or trip hazards?
☐	☐	☒	Are hand rails provided on all fixed stairways?
☐	☐	☒	Are treads provided with anti-slip surfaces?
☐	☐	☒	Are step ladders provided for reaching overhead storage areas and are materials stored safely?
☐	☐	☒	Are file drawers kept closed when not in use?
☐	☐	☒	Are passenger and freight elevators inspected annually and are the inspection certificates available for review on-site?
☐	☐	☒	Are pits and floor openings covered or otherwise guarded?
☐	☐	☒	Are standard guardrails provided wherever aisle or walkway surfaces are elevated more than 48 inches above any adjacent floor or the ground?
☐	☐	☒	Is any furniture unsafe or defective?
☐	☐	☒	Are objects covering heating and air conditioning vents?

Ergonomics

Yes	No	N/A	
☐	☐	☒	Are employees advised of proper lifting techniques?
☐	☐	☒	Are workstations configured to prevent common ergonomic problems? (Chair height allows employees' feet to rest flat on the ground with thighs parallel to the floor, top of computer screen is at or slightly below eye level, keyboard is at elbow height. Additional information on proper configuration of workstations is available through the Commerce Safety website at http://ohrm.doc.gov/safetyprogram/safety.htm)
☐	☐	☒	Are mechanical aids and equipment, such as; lifting devices, carts, dollies provided where needed?
☐	☐	☒	Are employees surveyed annually on their ergonomic concerns?

(Continued)

FIGURE 16-5 *Continued*

FORM CD-574
(9/02)

Emergency Information (Postings)

Yes	No	N/A	
☐	☐	☒	Are established emergency phone numbers posted where they can be readily found in case of an emergency?
☐	☐	☒	Are employees trained on emergency procedures?
☐	☐	☒	Are fire evacuation procedures/diagrams posted?
☐	☐	☒	Is emergency information posted in every area where you store hazardous waste?
☐	☐	☒	Is established facility emergency information posted near a telephone?
☐	☐	☒	Are the OSHA poster, and other required posters displayed conspicuously?
☐	☐	☒	Are adequate first aid supplies available and properly maintained?
☐	☐	☒	Are an adequate number of first aid trained personnel available to respond to injuries and illnesses until medical assistance arrives?
☐	☐	☒	Is a copy of the facility fire prevention and emergency action plan available on site?
☐	☐	☒	Are safety hazard warning signs/caution signs provided to warn employees of pertinent hazards?

Fire Prevention

Yes	No	N/A	
☐	☐	☒	Are flammable liquids, such as gasoline, kept in approved safety cans and stored in flammable cabinets?
☐	☐	☒	Are portable fire extinguishers distributed properly (less than 75 feet travel distance for combustibles and 50 feet for flammables)?
☐	☐	☒	Are employees trained on the use of portable fire extinguishers?
☐	☐	☒	Are portable fire extinguishers visually inspected monthly and serviced annually?
☐	☐	☒	Is the area around portable fire extinguishers free of obstructions and properly labeled?
☐	☐	☒	Is heat-producing equipment used in a well ventilated area?
☐	☐	☒	Are fire alarm pull stations clearly marked and unobstructed?
☐	☐	☒	Is proper clearance maintained below sprinkler heads (i.e., 18" clear)?

Emergency Exits

Yes	No	N/A	
☐	☐	☒	Are doors, passageways or stairways that are neither exits nor access to exits and which could be mistaken for exits, appropriately marked "NOT AN EXIT," "TO BASEMENT," "STOREROOM," etc.?
☐	☐	☒	Are a sufficient number of exits provided?
☐	☐	☒	Are exits kept free of obstructions or locking devices which could impede immediate escape?
☐	☐	☒	Are exits properly marked and illuminated?
☐	☐	☒	Are the directions to exits, when not immediately apparent, marked with visible signs?
☐	☐	☒	Can emergency exit doors be opened from the direction of exit travel without the use of a key or any special knowledge or effort when the building is occupied?
☐	☐	☒	Are exits arranged such that it is not possible to travel toward a fire hazard when exiting the facility?

FIGURE 16-5 Continued

FORM CD-574

(9/02)

Electrical Systems

(Please have your facility maintenance person or electrician accompany you during this part of the inspection)

Yes	No	N/A	
☐	☐	☒	Are all cord and cable connections intact and secure?
☐	☐	☒	Are electrical outlets free of overloads?
☐	☐	☒	Is fixed wiring used instead of flexible/extension cords?
☐	☐	☒	Is the area around electrical panels and breakers free of obstructions?
☐	☐	☒	Are high-voltage electrical service rooms kept locked?
☐	☐	☒	Are electrical cords routed such that they are free of sharp objects and clearly visible?
☐	☐	☒	Are all electrical cords grounded?
☐	☐	☒	Are electrical cords in good condition (free of splices, frays, etc.)?
☐	☐	☒	Are electrical appliances approved (Underwriters Laboratory, Inc. (UL), etc.)?
☐	☐	☒	Are electric fans provided with guards of not over one-half inch, preventing finger exposures?
☐	☐	☒	Are space heaters UL listed and equipped with shutoffs that activate if the heater tips over?
☐	☐	☒	Are space heaters located away from combustibles and properly ventilated?
☐	☐	☒	In your electrical rooms are all electrical raceways and enclosures securely fastened in place?
☐	☐	☒	Are clamps or other securing means provided on flexible cords or cables at plugs, receptacles, tools, equipment, etc., and is the cord jacket securely held in place?
☐	☐	☒	Is sufficient access and working space provided and maintained about all electrical equipment to permit ready and safe operations and maintenance? (This space is 3 feet for less than 600 volts, 4 feet for more than 600 volts)

FORM CD-574

(9/02)

Material Storage

Yes	No	N/A	
☐	☐	☒	Are storage racks and shelves capable of supporting the intended load and materials stored safely?
☐	☐	☒	Are storage racks secured from falling?
☐	☐	☒	Are office equipment stored in a stable manner, not capable of falling?

operational safety reviews

Reviews conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules.

OPERATIONAL SAFETY REVIEWS After Japan’s Fukushima nuclear power plant exploded back in 2011, many wondered if the International Atomic Energy Agency (IAEA) had conducted the necessary operational safety reviews. **Operational safety reviews** (or safety operations reviews) are conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules. For example, under IAEA’s Operational Safety Review Program, “international teams of experts conduct in-depth reviews of operational safety performance at a nuclear power plant.”⁷⁵

PERSONAL PROTECTIVE EQUIPMENT While it can reduce the perils of some unsafe conditions, getting employees to wear personal protective equipment (PPE) like hard hats is famously difficult.⁷⁶ Wearability is important. OSHA regulations say it “should fit comfortably, encouraging worker use.”⁷⁷ In addition to providing protection, PPE should fit properly; be easy to care for; be flexible and lightweight; and be maintained in a clean and reliable fashion, for instance. Companies such as Kimberly-Clark are using new fibers and fabrics

to design easier-wearing high-tech solutions.⁷⁸ And it's not just wearability. For example, some workers resist hearing protection because they're afraid it may interfere with hearing their colleagues.⁷⁹ It's therefore important to solicit workers' opinions.

Of course, the manager should require wearing the protective equipment before the accident, not just after it. For example, a combustible dust explosion at a sugar refinery killed 14 employees and burned many others. The employer subsequently required that all employees wear fire-resistant clothing, unfortunately too late for the victims.⁸⁰

Similarly, cold weather means employers should protect their outdoor workers.⁸¹ This should include, among other things, monitoring temperature and wind chill conditions, making sure workers are supplied with cold-weather apparel, monitoring workers for signs of frostbite, and providing adequate indoor breaks.⁸²

But again, reducing unsafe conditions is the first line of defense. OSHA says, "[e]mployers must institute all feasible engineering and work practice controls to eliminate and reduce hazards before using PPE to protect against hazards."⁸³



TRENDS SHAPING HR: LOCATION BEACONS

Beacons—tiny devices that continuously transmit radio signals identifying themselves—are becoming valuable occupational safety tools. Employers use beacons to keep track of employees, particularly if they're in distress. Others use them to warn employees, such as when they're too close to a danger zone.⁸⁴ ■



Diversity Counts: Protecting Vulnerable Workers

In designing safe environments, employers need to pay special attention to vulnerable workers, such as young, immigrant, aging, and women workers.⁸⁵ For example, although 14- and 15-year-olds can generally only legally work at jobs like cashier and office work, 16- and 17-year-olds may take jobs like cooking and construction. In one recent year, about 550 16- and 17-year-olds were injured at work.⁸⁶ Similarly, as one safety engineering company CEO said, "For decades, women essentially were ignored when it came to designing eye and face protection." Today, more products are available in smaller sizes.⁸⁷

With more workers postponing retirement, older workers often fill manufacturing jobs.⁸⁸ They can do these jobs effectively. However, there are numerous physical changes associated with aging, including loss of strength, loss of muscular flexibility, and reduced reaction time.⁸⁹ The fatality rate for older workers is about three times that of younger workers.⁹⁰ Employers should make special provisions. For example, boost lighting levels and reduce heavy lifting.⁹¹

One also needs plans for dealing with health issues.⁹² Thus, in the case of a cardiac arrest emergency, early CPR and external defibrillators are essential. These should be available and one or more employees trained to use them.⁹³ ■

Reducing Unsafe Acts

While reducing unsafe conditions is the first line of defense, human misbehavior will short-circuit even the best safety efforts.⁹⁴

Sometimes the misbehavior is intentional, but often it's not. For example, distractions contribute to about half of all car accidents. The National Safety Council estimates that cell phone use was involved in 24% of all motor vehicle crashes.⁹⁵ (Drivers of commercial interstate motor vehicles are banned from using handheld mobile telephones while driving.)⁹⁶ At work, not noticing moving or stationary objects or that a floor is wet often causes accidents.⁹⁷ And, ironically, “making a job safer with machine guards or PPE lowers people’s risk perceptions and thus can lead to [more] at-risk behavior.”⁹⁸

Unfortunately, telling employees to “pay attention” isn’t enough. First try to eliminate potential risks, such as unguarded equipment. Next, reduce potential distractions such as noise, heat, and stress. Then, carefully screen and train employees, as we explain next.

Reducing Unsafe Acts through Screening

In reducing unsafe acts through screening, the employer’s aim is to identify the traits that predict accidents on the job and then test candidates for these traits. For example, the Employee Reliability Index (ERI) measures dimensions such as emotional maturity, conscientiousness, and safe job performance.⁹⁹ Employers also use *work sample* tests and tests of *physical abilities* to determine if the person can do the job. Some employers conduct *physical demands assessments* (PDAs). These itemize a job’s physical demands, such as “lifting 40 pounds an hour,” and “working in 90 degree heat.” The employer then uses this to develop more precise screening and training for the job.¹⁰⁰

Behavioral interview questions can also be revealing. For example, ask, “What would you do if your supervisor told you to do something you knew was unsafe?”

Reducing Unsafe Acts through Training

Studies by the Hartford Insurance Company found that injury rates for workers in their first month on the job were four to six times higher than for other workers.¹⁰¹

Emergency stop devices, such as buttons, override other machine controls to remove power from hazardous machine motion.

Ekkaluck Sangkai/Alamy Stock Photo



Safety training reduces unsafe acts, especially for new employees.¹⁰² Here the employer should instruct employees in safe practices and procedures, warn them of potential hazards, and work to develop a safety-conscious employee attitude. Safety standards don't just require training. Employees must demonstrate that they actually learned what to do. (For example, OSHA's respiratory standard requires that each employee demonstrate how to inspect, put on, and remove respirator seals.¹⁰³ OSHA has two booklets, *Training Requirements under OSHA* and *Teaching Safety and Health in the Workplace*. National Safety Council, New Delhi conducts regular workshops and training programs, including e-learning on safety.) Because temporary workers account for a disproportionate share of workplace accidents, the employer should take particular care to train them.¹⁰⁴

The main aim of safety training is not to meet training standards, but to impart knowledge and skills to reduce accidents. One study found that the most effective safety training elicited employee engagement.¹⁰⁵ The "least engaging" programs included lectures, films, reading materials, and video-based training. "Moderately engaging" programs included computer interface instruction with feedback. "Engaging" ones included behavioral modeling, simulation, and hands-on training.

Employers also use training vendors' online safety programs.¹⁰⁶ Online safety course and video vendors include, for example, <https://safetyskills.com/>, PureSafety (www.ulworkplace.com), and <https://vividlearningsystems.com/courses>. National Institute of Fire Safety Engineering, Nagpur (NIFSE) offers short term and long term courses in Fire safety and industrial safety. NIFSE qualifications are recognized for safety jobs in industry and government.

Reducing Unsafe Acts through Posters, Incentives, and Positive Reinforcement

Employers also use various tools to motivate worker safety.¹⁰⁷ Safety posters are one, but are no substitute for comprehensive safety programs. Employers should combine posters with other techniques (like screening and training) to reduce unsafe conditions and acts, and change the posters often. Posters should be easily visible, legible, and well-lit.¹⁰⁸

Incentive programs are also useful. In one survey several years ago, about 75% of U.S. manufacturers surveyed said they had safety incentive programs.¹⁰⁹ Most such programs pay incentives for safety-related worker behaviors such as participating in a safety meeting, reporting a near miss, or reporting unsafe conditions.¹¹⁰ Vendors also offer turnkey safety incentive programs. For example, safety incentive programs from safety Pays (www.safetypays.com/) include programs for incentivizing employees' safety awareness.

OSHA, U.S. has argued that such programs don't reduce injuries or illnesses, but only injury and illness *reporting*. OSHA rules prohibit employers from using incentive programs that in any way penalize workers for reporting accidents or injuries.¹¹¹ OSHA might question any safety incentive payment that is so high that the award might dissuade reasonable workers from reporting safety problems.¹¹²

One option (see accompanying Profit Center discussion) is to emphasize behavioral incentives like recognition.¹¹³ In any case, the incentive program should be part of a comprehensive safety program.¹¹⁴



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Using Positive Reinforcement

Many employers successfully use *positive reinforcement programs* to improve safety. Such programs provide workers with continuing positive feedback, usually in the form of graphical performance reports and supervisory support, to shape the workers' safety-related behavior.

Researchers introduced one program in a wholesale bakery.¹¹⁵ The new safety program included training and positive reinforcement. The researchers set and communicated a reasonable safety goal (in terms of observed incidents performed safely). Next, employees participated in a 30-minute training session by viewing pairs of slides depicting scenes that the researchers staged in the plant. One slide, for example, showed the supervisor climbing over a conveyor; the parallel slide showed the supervisor walking around the conveyor. After viewing an unsafe act, employees had to describe, "What's unsafe here?" Then the researchers demonstrated the same incident again but performed in a safe manner, and explicitly stated the safe-conduct rule ("go around, not over or under, conveyors").

At the conclusion of the training phase, supervisors showed employees a graph with their pretraining safety record (in terms of observed incidents performed safely) plotted. Supervisors then encouraged workers to consider increasing their performance to the new safety goal for their own protection, to decrease costs, and to help the plant get out of its last-place safety ranking. Then the researchers posted the graph and a list of safety rules.

Whenever observers walked through the plant collecting safety data, they posted on the graph the percentage of incidents they had seen performed safely by the group as a whole, thus providing the workers with positive feedback. Workers could compare their current safety performance with both their previous performance and their assigned goal. In addition, supervisors praised workers when they performed selected incidents safely. Safety in the plant subsequently improved markedly. ■

Particularly in situations like this where employees are relatively unsupervised, employers should create a safety-conscious culture by showing that they take safety seriously.

caia image/Alamy Stock Photo



Reducing Unsafe Acts by Fostering a Culture of Safety

Employers and supervisors should create a culture of safety by showing they take safety seriously. One study measured safety culture in terms of questions like “my supervisor says a good word whenever he sees the job done according to the safety rules” and “my supervisor approaches workers during work to discuss safety issues.”¹¹⁶

According to one safety expert, a workplace with a safety-oriented culture exhibits:

1. *Teamwork*, in the form of management and employees both involved in safety;
2. Highly visible and interactive *communication and collaboration* on safety matters;
3. A *shared vision* of safety excellence (specifically, an overriding attitude that all accidents and injuries are preventable);
4. *Assignment* of critical safety functions to specific individuals or teams;
5. A *continuous effort* toward identifying and correcting workplace safety problems and hazards;¹¹⁷ and,
6. *Encouragement* of incident reporting.¹¹⁸

Reducing Unsafe Acts by Creating a Supportive Environment

Supportive supervisors’ teams seem to have better safety records. “Organizations can develop a supportive environment by training supervisors to be better leaders, emphasizing the importance of teamwork and social support, and establishing the value of safety.”¹¹⁹

Reducing Unsafe Acts by Establishing a Safety Policy

The company’s written safety policy should emphasize that accident prevention is of the utmost importance, and that the firm will do everything practical to eliminate or reduce accidents and injuries.

Reducing Unsafe Acts by Setting Specific Loss Control Goals

Set specific safety goals to achieve. For example, set safety goals in terms of frequency of lost-time injuries per number of full-time employees.

Reducing Unsafe Acts through Behavior-Based Safety and Safety Awareness Programs

Behavior-based safety means identifying the worker behaviors that contribute to accidents and then training workers to avoid these behaviors. Tenneco Corporation implemented one such program. The firm selected internal consultants from among its quality managers, training managers, engineers, and production workers. After training, the internal consultants identified five critical behaviors for Tenneco’s first safety program, such as *Eyes on task: Does the employee watch his or her hands while performing a task?* The consultants made observations and collected data on the behaviors. Then they instituted training programs to get employees to perform these five behaviors properly.¹²⁰

Employers also use *safety awareness* programs. In a **safety awareness program** new workers receive critical information regarding the job’s common safety hazards and simple prevention methods, often when first arriving at a job site. For example, the Roadway Safety Awareness Program from

behavior-based safety

Identifying the worker behaviors that contribute to accidents and then training workers to avoid these behaviors.

safety awareness program

Program that enables trained supervisors to orient new workers arriving at a job site regarding common safety hazards and simple prevention methods.

the American Road & Transportation Builders Association addresses trucker safety issues such as stopping distances required at various speeds.

Reducing Unsafe Acts through Employee Participation

Employee participation plays a central role in safety programs. As OSHA says, “To be effective, any safety and health program needs the meaningful participation of workers and their representatives. . . . Worker participation means that workers are involved in establishing, operating, evaluating, and improving the safety and health program.”¹²¹ Ideally, the employer should encourage all workers to participate, to feel comfortable reporting safety or health concerns, and to have access to the information they need to participate in the program.¹²² The employee engagement section in this chapter illustrates this.

**TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA****Conducting Safety and Health Audits and Inspections**

Safety managers know that good intentions aren’t enough: the employer must audit safety compliance. First, line managers should periodically inspect their areas using safety audit/checklists (as in Figure 16-5, pages 591–593), including investigating all accidents and “near misses.”

A company/facility-wide safety audit is also in order. OSHA provides a safety self-audit tool.¹²³ It contains items to check off, such as “Management implements and communicates a written policy supporting the safety and health program,” and “Management defines specific goals and expectations for the program.”¹²⁴

Employers expedite and enable safety audits with mobile digital tools. For example, managers and employees use iAuditor—Safety Audit and Checklist App,¹²⁵ available via iTunes, to facilitate safety audits. iAuditor contains safety checklists and tools that let employers take action depending on the checklist response.¹²⁶ ■

Table 16-1 summarizes suggestions for reducing unsafe conditions and acts.

LEARNING OBJECTIVE 16-5

Describe how one company uses employee engagement to improve workplace safety.

Employee Engagement Guide for Managers**Milliken & Company—World-Class Safety through Employee Engagement**

Milliken & Company designs, manufactures, and markets chemicals, floor coverings, protective fabrics, and textiles. It has about 7,000 employees in more than 39 facilities around the world. The privately owned Milliken has received widespread recognition for the quality of its innovative products, for its high employee engagement, and for its world-class employee engagement-based safety program. It’s also the only company to consistently rank as a “most ethical company” for 15 years running.¹²⁷ A survey of Milliken’s employees found an 80% positive engagement level, based on questions concerning employees’ commitment, pride in company, and empowerment efforts.¹²⁸ Its extraordinarily low workplace illness and injury rates make it one of the safest companies in which to work.¹²⁹

Involvement-Based Employee Engagement

The centerpiece of Milliken’s safety process is its *involvement-based employee engagement* program. For example, employees staff the safety steering and safety subcommittee system, submit “opportunity for improvement” suggestions weekly, review each of these suggestions, and provide feedback on every suggestion.¹³⁰ The safety process depends on *cascading goals* deriving from federal, state, and Milliken-based safety guidelines. These goals are translated through weekly meetings into specific metrics (for instance, “accidents per employee hour worked”) to be achieved by each plant’s subcommittees. Each subcommittee then performs weekly *audits*, to ensure compliance and that the plant’s safety activities are continuously improved. Plant employees get checklists to familiarize themselves with the safety measures associated with their machines.¹³¹

Each Milliken employee’s safety program involvement is quantified, for instance in terms of serving on safety subcommittees, or conducting safety audits.¹³² Also, to help foster engagement, the program *empowers* employees, for instance, by training each to be knowledgeable about OSHA safety regulations. Milliken also trains employees to give and receive peer-to-peer safety comments. Each is authorized to act by providing “constructive feedback” or “appreciative feedback” when observing another employee doing something safely (or not). Milliken’s safety tracking tool helps employees make sure that safety suggestions, safety audit findings, or other safety agenda items are each tracked and finalized; each item gets a number, date, and the name of the responsible Milliken employee.¹³³ Milliken’s programs are consistent with OSHA’s Voluntary Protection Program, and many of its U.S. facilities are VPP certified.¹³⁴

Members of each plant’s employee safety steering committee investigate all safety incidents to identify the causes.¹³⁵ Milliken recognizes employees’ safety efforts in formal celebratory events throughout the year, such as having “cheerleaders” provide safety cheers as engineers enter the plant.¹³⁶

TABLE 16-1 Reducing Unsafe Conditions and Acts: A Summary

Reduce Unsafe Conditions
Identify and eliminate unsafe conditions.
Use administrative means, such as job rotation.
Use personal protective equipment.
Reduce Unsafe Acts
Emphasize top management commitment.
Emphasize safety.
Establish a safety policy.
Reduce unsafe acts through selection.
Provide safety training.
Use posters and other propaganda.
Use positive reinforcement.
Set specific safety goals to achieve.
Use behavior-based safety programs.
Encourage worker participation.
Conduct safety and health audits and inspections regularly.

LEARNING OBJECTIVE 16-6

List five workplace health hazards and how to deal with them.

Workplace Health Hazards: Problems and Remedies

Many workplace hazards aren't as obvious as slippery floors. Many are unseen hazards that the company may use or produce as part of its production processes. Typical here are chemicals, temperature extremes, biohazards (such as mold and anthrax), and ergonomic hazards (such as misaligned computer screens). safety standards cover many of them.¹³⁷

Chemicals and Industrial Hygiene

For example, OSHA standards list exposure limits for about 600 chemicals, such as asbestos and lead. Such hazardous substances require air sampling and other precautionary measures.

Managing such hazards comes under the purview of *industrial hygiene*, and involves recognition, evaluation, and control. First, the facility's safety officers (often working with supervisors and employees) must *recognize* possible exposure hazards. This typically means conducting plant/facility walk-around surveys, employee interviews, records reviews, and reviews of government and nongovernmental standards.

Once the manager identifies a possible hazard, *evaluation* involves determining how severe it is. This requires measuring the exposure, comparing the measure to some benchmark (such as 0.10 fibers per cubic centimeter for asbestos), and determining if the risk is within standard.¹³⁸

Hazard *control* involves eliminating or reducing the hazard. Here personal protective gear should be the *last* option. The employer must first install engineering controls (such as enclosures or ventilation) and administrative controls (including training and improved housekeeping).



KNOW YOUR EMPLOYMENT LAW

Hazard Communication

In, say, a dry cleaning store, it might not be apparent by looking at it that the clear cleaning chemical hydrofluoric acid will eat through glass and blind an unsuspecting worker. Under OSHA's *hazard communication standard*, "in order to ensure chemical safety in the workplace, information about the identities and hazards of the chemicals must be available and understandable to workers." As a result, chemical manufacturers and importers must label and provide hazard safety data sheets to their customers. All employers must have labels and safety data sheets available for their exposed workers, and train workers to handle the chemicals appropriately.¹³⁹ ■

HR AND THE GIG ECONOMY: TEMP EMPLOYEE SAFETY¹⁴⁰

Temp workers in the United States account for as much as five times the workplace fatalities than one might expect.

Why? First, new employees tend to have higher accident rates, and temp or gig workers are often new. Furthermore, temp or gig workers lack some familiar legal employment protections (for example, they generally don't get unemployment insurance or workers' compensation).¹⁴¹ This may in turn prompt some employers to ignore temps' safety training (on the mistaken assumption that they need not provide it). Temps may also lack the workmates who might otherwise provide safety guidance. Some experts also believe that temp workers often get the "dirtiest most hazardous" jobs.

However, temp/gig workers *are* covered by occupational health and safety laws, and companies have the same safety obligations to them as to their own employees. For example, the host employer has the primary responsibility for providing temp workers with site-specific hazard communications information and training, and safety training must be identical to what it gives its own employees. As other examples, the host employer must ensure appropriate labeling of chemical containers, and provide appropriate personal protective equipment (PPE). Many host employers hire temps through staffing agencies. According to OSHA, these agencies should, for example, provide generic hazard communications and visit the facility to review the adequacy of its hazard safety processes.



We'll look at several important workplace hazards next.

Asbestos Exposure at Work and Air Quality

Asbestos is a major source of occupational respiratory disease. Efforts are still underway to rid old buildings of the substance. Recently, the Drug Controller General of India notified Johnson and Johnson after presence of asbestos was found in talcum powder sold in India.¹⁴²

India Law (Factories Act, Beuro of Indian Standards) and OSHA standards require several actions with respect to asbestos. Employers must monitor the air whenever they expect the level of asbestos to rise to one-half the allowable limit (0.10 fibers per cubic centimeter). Engineering controls—walls, special filters, and so forth—are required to maintain a compliant asbestos level. Only then can employers use respirators if additional efforts are required to achieve compliance. In 2011, the Hon. SC of India directed that ILO norms regarding asbestos use should be implemented in India. the impact of asbestos on health of workers were recognized in the judgments. Yet according to reports, India continues to import asbestos and use that for industrial and commercial applications.¹⁴³

Exposure to asbestos is a major potential source of occupational respiratory disease. Workers need to wear protective clothing and a respirator to remove asbestos from buildings.

Krzysztof Slusarczyk/Shutterstock





Alcoholism and Substance Abuse

About two-thirds of all drug users and people with alcohol disorders are employed.¹⁴⁴ One estimate around 10 years ago was that about 15% of the U.S. workforce “has either been hung over at work, been drinking shortly before showing up for work, or been drinking or impaired while on the job at least once during the previous year.”¹⁴⁵ Breathalyzer tests detected alcohol in 16% of emergency room patients injured at work.¹⁴⁶ Employee alcoholism may cost U.S. employees about \$226 billion per year, for instance in absenteeism and accidents.¹⁴⁷ A study on India showed that alcoholism is on rise in India, and it is impacting work performance. In some geographies and for job types, alcohol is even made a part of the pay.¹⁴⁸ Deaths from opioids about tripled in one recent 5-year period.¹⁴⁹

SUBSTANCE ABUSE TESTING Dealing with substance abuse often involves *substance abuse testing*.¹⁵⁰ It’s unusual to find employers who don’t at least test job candidates for substance abuse before formally hiring them. And many states have mandatory random drug testing for high-hazard workers.

Yet there is debate about whether drug tests reduce workplace accidents. One study, in three hotels, concluded that preemployment drug tests seemed to have little effect on workplace accidents. However, a combination of pre-employment and random ongoing testing was associated with a significant reduction in workplace accidents.¹⁵¹

DEALING WITH SUBSTANCE ABUSE Ideally, a drug-free workplace program includes five components:¹⁵²

1. A drug-free workplace policy
2. Supervisor training
3. Employee education
4. Employee assistance
5. Drug testing

The policy should state, at a minimum, “The use, possession, transfer, or sale of illegal drugs by employees is prohibited.” It should also explain the policy’s rationale, and the disciplinary consequences. Supervisors should be trained to monitor employees’ performance, and to stay alert to drug-related performance problems. As in Table 16-2, alcohol-related symptoms range from tardiness in the earliest stages of alcohol abuse to prolonged, unpredictable absences in its later stages.¹⁵³

Several tools are available to screen for alcohol or drug abuse. The most widely used self-reporting screening instruments for alcoholism are the 4-item CAGE and the 25-item Michigan Alcoholism Screening Test (MAST). The former asks questions like these: Have you ever (1) attempted to Cut back on alcohol, (2) been Annoyed by comments about your drinking, (3) felt Guilty about drinking, (4) had an Eye-opener first thing in the morning to steady your nerves?¹⁵⁴

In general, disciplining, discharge, in-house counseling, and referral to an outside agency are the traditional prescriptions when *current* employees test positive; repeated test failures often incur harsher penalties. However, U.S. federal and state laws govern what employers can and can’t do.¹⁵⁵ For example, U.S. federal transportation law basically requires that a truck driver who fails (or refuses to take) a drug test be immediately removed from driving until successful completion of qualified counseling.¹⁵⁶ And in Vermont and Minnesota,

someone who fails a first drug test can't be fired if he or she completes a rehabilitation program.¹⁵⁷ Drunken driving is also punishable in India, and traffic police often conducts tests on drivers of taxis, trucks and public buses.

Stress, Burnout, and Depression

Many things about one's job can be stressful. These include belligerent bosses or colleagues, poor job security, low pay, unpredictable schedules, workplace noise, excessive workloads, inadequate control over job-related decisions, unclear performance expectations, and arrogant customers.¹⁵⁸

Furthermore, personality affects stress. For example, Type A personalities—workaholics who feel driven to meet deadlines—normally place themselves under greater stress. Add to job stress the stress caused by nonjob problems like divorce, and many workers are problems waiting to happen.

Human consequences of job stress include anxiety, depression, anger, cardiovascular disease, headaches, accidents, and even early onset Alzheimer's disease.¹⁵⁹ One study found that nurses working under excessive pressure had double the risk for heart attacks.¹⁶⁰ For the employer, consequences include diminished performance and increased absenteeism and turnover. One report estimates that work stress costs an extra \$125 to \$190 billion dollars per year in health-care spending.¹⁶¹

TABLE 16-2 Observable Behavior Patterns Indicating Possible Alcohol-Related Problems

Alcoholism Stage	Some Possible Signs of Alcoholism Problems	Some Possible Alcoholism Performance Issues
Early	Arrives at work late Untrue statements Leaves work early	Reduced job efficiency Missed deadlines Careless, sloppy work
Middle	Frequent absences, especially Mondays Colleagues mentioning erratic behavior Mood swings Anxiety Late returning from lunch Frequent multiday absences	Accidents Warnings from boss Noticeably reduced performance Many excuses for incomplete assignments or missed deadlines
Advanced	Personal neglect Unsteady gait Violent outbursts Blackouts and frequent forgetfulness Possible drinking on job	Frequent falls, accidents Strong disciplinary actions Basically incompetent performance

Source: Based on Gopal Patel and John Adkins Jr., "The Employer's Role in Alcoholism Assistance," *Personnel Journal* 62, no. 7 (July 1983), p. 570; Mary-Anne Enoch and David Goldman, "Problem Drinking and Alcoholism: Diagnosis and Treatment," *American Family Physician*, February 1, 2002, www.aafp.org/afp/20020201/441.html, accessed July 20, 2008; and Ken Pidd et al., "Alcohol and Work: Patterns of Use, Workplace Culture, and Safety," www.nisu.flinders.edu.au/pubs/-reports/2006/injcat82.pdf, accessed July 20, 2008; www.ncadd.org/about-addiction/addiction-update/drugs-and-alcohol-in-the-workplace, accessed April 12, 2017; www.opm.gov/policy-data-oversight/worklife/reference-materials/alcoholism-in-the-workplace-a-handbook-for-supervisors/, accessed April 9, 2018.

REDUCING JOB STRESS There are several ways to alleviate dysfunctional stress. These range from commonsense remedies (getting more sleep) to biofeedback and meditation. Finding a more suitable job, getting counseling, and planning each day's activities are other sensible responses.¹⁶² In his book *Stress and the Manager*, Dr. Karl Albrecht suggests the following ways for a person to reduce job stress:¹⁶³

- Build rewarding, pleasant, cooperative relationships with colleagues and employees.
- Don't bite off more than you can chew.
- Talk to your supervisor, for instance to clear the air if the relationship has become tense.
- Negotiate with your boss for realistic deadlines on important projects.
- Learn as much as you can about upcoming events, and get as much lead time as possible to prepare for them.
- Find time every day for detachment and relaxation.
- Take a walk around the office to keep your body refreshed and alert.
- Find ways to reduce unnecessary noise.
- Reduce the amount of trivia in your job; delegate routine work when possible.
- Limit interruptions.
- Don't put off dealing with distasteful problems.
- Make a constructive "worry list" that includes solutions for each problem.
- Get more and better quality sleep.¹⁶⁴
- Establish boundaries, such as by not checking email from home after 10 P.M.
- Get some support, by speaking with a trusted friend or counselor.

Meditation is an option. Choose a quiet place with soft light and sit comfortably. Then focus your thoughts (for example, count breaths or visualize a calming location such as a beach). When your mind wanders, bring it back to focusing your thoughts on your breathing or the beach.¹⁶⁵

WHAT THE EMPLOYER CAN DO Employers and supervisors play roles in reducing stress. Supportive supervisors and fair treatment are important; rein in bullying-prone supervisors. Other steps include reducing personal conflicts on the job and encouraging open communication between management and employees. One hospital in California introduced an on-site concierge service to help its employees reduce work-related stress. It handles tasks like making vacation plans for employees.¹⁶⁶ Some employers use "resilience training" to help employees deal with stress. As one example, "participants consider previous stressful situations in their lives that they have overcome and identify factors that made the situations manageable."¹⁶⁷

One British firm has a three-tiered employee stress-reduction program.¹⁶⁸ First is *primary prevention*. This focuses on ensuring that things like job designs and workflows are correct. Second is *intervention*. This includes individual employee assessment, attitude surveys to find sources of stress, and supervisory intervention. Third is *rehabilitation*, which includes employee assistance programs and counseling.

burnout

The total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal.

BURNOUT Experts define **burnout** as the total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal. Burnout manifests itself in symptoms like irritability, discouragement, exhaustion, cynicism, entrapment, and resentment.¹⁶⁹

Employers can head off burnout, for instance, by monitoring employees in potentially high-stress jobs.¹⁷⁰ What can a burnout candidate do? First, watch for warning signs such as tiredness, lack of focus, and depressed mood.¹⁷¹ In his book *How to Beat the High Cost of Success*, Dr. Herbert Freudenberger suggests:

- **Break your patterns.** The more well-rounded your life is, the better protected you are against burnout.
- **Get away from it all periodically.** Schedule occasional periods of introspection where you can get away from your usual routine.¹⁷² Another way to reduce burnout is to (try to) put your job aside once you go home.¹⁷³ Similarly, take your vacation time: only about 47% of workers used all their paid vacation days recently.¹⁷⁴
- **Reassess your goals in terms of their intrinsic worth.** Are the goals you've set for yourself attainable? Are they really worth the sacrifices?
- **Think about your work.** Could you do as good a job without being so intense?
- **Stay active.** One study concluded that “the increase in job burnout and depression was strongest among employees who did not engage in physical activity and weakest to the point of non-significance among those engaging in high physical activity.”¹⁷⁵

EMPLOYEE DEPRESSION *Employee depression* is a serious work problem. Experts estimate that depression results in about 200 million lost workdays each year, costing employers \$17 to \$44 billion annually.¹⁷⁶ Depressed people also tend to have worse safety records.¹⁷⁷

One survey found that while about two-thirds of large firms offered employee assistance programs covering depression, only about 14% of employees with depression said they ever used one.¹⁷⁸ Employers therefore need to train supervisors to identify depression's warning signs and to counsel those who may need such services to use them.¹⁷⁹ Depression is a disease. It does no more good to tell a depressed person to “snap out of it” than it would to tell someone with a heart condition to stop acting tired. Typical depression warning signs (if they last for more than 2 weeks) include persistent sad, anxious, or “empty” moods; sleeping too little; reduced appetite; loss of interest in activities once enjoyed; restlessness or irritability; and difficulty concentrating.¹⁸⁰

Solving Computer-Related Ergonomic Problems

OSHA provides an e-Tool for designing computer workstations.¹⁸¹ Its prescriptions include, place the monitor directly in front of you, ensure it's at arm's length, and look away from the monitor every 20 minutes while focusing on something at least 20 feet away.¹⁸²

NIOSH (the National Institute for Occupational Safety and Health) provides general recommendations. Most relate to *ergonomics* or design of the worker–equipment interface. These include the following:

- Employees should take a 3- to 5-minute break from working at the computer every 20–40 minutes, using the time for other tasks.

- Design maximum flexibility into the workstation so it can be adapted to the person. For example, use adjustable chairs with midback supports. Don't stay in one position too long.
- Reduce glare with devices such as shades over windows and indirect lighting.
- Give workers a preplacement vision exam to ensure properly corrected vision for reduced visual strain.¹⁸³
- Allow the user to position his or her wrists at the same level as the elbow.
- Put the screen at or just below eye level, at a distance of 18 to 30 inches from the eyes.
- Let the wrists rest lightly on a pad for support.
- Put the feet flat on the floor or on a footrest.¹⁸⁴

Repetitive Motion Disorders

Repetitive motion disorders include carpal tunnel syndrome and tendonitis. They result from too many uninterrupted repetitions of an activity or motion, or from unnatural motions such as twisting the arm or wrist. It affects people who perform repetitive tasks such as assembly line or computer work. Employers can reduce the problem, for instance, with programs to help workers adjust their pace of work.¹⁸⁵

Sitting

Studies suggest that people who sit a lot are in poorer health, and need to get up and walk around about 30 or 40 times a day; that's why apps (such as iPhone's health app) prompt users to walk around hourly.¹⁸⁶ Standing desks and slow treadmills (up to 3–4 miles/hour) are other options.¹⁸⁷ Continuous standing for work also has health impact. The retail (textile) salespersons, particularly women in Kerala were found to be working in standing position for 9 to 10 hours daily. After prolonged struggle by retailers workers for their Right to Sit, Government of Kerala amended the state Shops and Commercial Establishments act to ensure that employers provide facilities to sit during working hours.¹⁸⁸

Infectious Diseases

Employers can take steps to prevent the entry or spread of infectious diseases.¹⁸⁹ These steps include:

1. Monitor the official travel alerts.
2. Encourage employees to receive immunizations.
3. Provide daily medical screenings for employees returning from infected areas.
4. Deny access for some time, say 10 days to employees or visitors who have had contact with suspected infected individuals.
5. Tell employees to stay home if they have a fever or respiratory system symptoms.
6. Clean work areas and surfaces regularly.
7. Practice hand hygiene, and make sanitizers easily available.
8. Stagger breaks. Offer several lunch periods to reduce overcrowding.¹⁹⁰

Workplace Smoking

Smoking is a serious health and cost problem. For employers, costs derive from higher health and fire insurance, increased absenteeism, and reduced productivity (as when smokers take a 10-minute break behind the store).

The manager can probably deny a job to a smoker as long as smoking isn't used as a surrogate for other discrimination.¹⁹¹ Smoking in public places have been banned in India since 2008. Recently, many Indian states have also banned vaping, or e-cigarettes. Most employers these days ban indoor smoking, often designating small outdoor areas where smoking is permitted. Many states and municipalities now ban indoor smoking in public areas.¹⁹² With vaping laws in flux, employers should check the status of their local and state laws.¹⁹³



LEARNING OBJECTIVE 16-7

Discuss the prerequisites for a security plan and how to set up a basic security program.

Occupational Security and Risk Management

Workplace *safety* relates to risks of injury or illness to employees. Workplace *security* relates to protecting employees from internal and external security risks such as criminal acts by visitors and terrorism.¹⁹⁴ The employer's workplace security plans should address things like establishing a formal security team, protecting the firm's intellectual property (for instance, through noncompete agreements), protecting against cyber threats (personnel information can be a "gold mine" for hackers),¹⁹⁵ developing crisis management plans, establishing theft and fraud prevention procedures, preventing workplace violence, and installing facility security systems.¹⁹⁶ Many firms of course also have special handling procedures for mail packages and hold regular emergency evacuation drills.



Enterprise Risk Management

Enterprise risk management is "the process of assessing exposures to loss within an operation and determining how best to eliminate, manage or otherwise reduce the risk of an adverse event from having a negative impact on the business."¹⁹⁷

Companies face a wide variety of risks, only some of which are direct risks to employees' health and safety. Other risks include, for instance, natural disaster risks, financial risks, and risks to the firm's computer systems. *Human capital risks* rank high. These include safety risks like those we discussed earlier in this chapter but also, for instance, "risks" from unionization and from inadequate staffing plans.¹⁹⁸

How the employer manages a risk depends on the type of risk. For example, *internal preventable* risks arise from actions within the company and include things like employees' illegal conduct or workplace accidents.¹⁹⁹ Employers manage these risks with methods such as codes of conduct, disciplinary procedures, and safety rules. *Strategy risks* are risks that managers accept as part of executing their strategies, such as the risk a banker takes that a borrower defaults. Employers manage some strategy risks with independent experts (like those who assess insurance risks) and with in-house experts, like the risk managers who help to oversee banks' loan portfolios. *External risks* come from outside the company and include things like political and natural disasters and terrorism. Managing external risks might involve methods like scenario planning, in which the company endeavors to identify, analyze, and plan for multiple possible eventualities.



Preventing and Dealing with Violence at Work

Violence against employees is an internal preventable risk, and a huge problem.²⁰⁰ According to OSHA, homicide is the fourth-leading cause of fatal occupational injuries in the United States.²⁰¹ Customers are often the perpetrators.²⁰² Many other assaults involve coworkers or a current or a former partner or spouse.²⁰³

Workplace violence incidents by coworkers are predictable and avoidable. *Risk Management Magazine* estimates that about 86% of past workplace violence incidents were anticipated by coworkers, who had brought them to management's attention prior to the incidents actually occurring. Yet management usually did little or nothing.²⁰⁴ Human resource managers can take several steps to reduce workplace violence risks.

HEIGHTEN SECURITY MEASURES Heightened security measures are the first line of defense, whether the violence is from coworkers, customers, or outsiders. According to OSHA, measures should include those in Figure 16-6.

IMPROVE EMPLOYEE SCREENING With about 30% of workplace attacks committed by coworkers, screening out potentially violent applicants is the employer's next line of defense.

Both personal and situational factors correlate with workplace aggression. Men and individuals scoring higher on "trait anger" (the predisposition to respond to situations with hostility) are more likely to exhibit aggression. In terms of the situation, interpersonal injustice and poor leadership can trigger aggression against supervisors.²⁰⁵

Employers can screen out potentially violent workers before they're hired. Obtain an employment application, and check the applicant's employment history, education, and references.²⁰⁶ Sample interview questions include "What frustrates you?" and "Who was your worst supervisor and why?"²⁰⁷ Certain background circumstances, such as the following, may call for more in-depth background checking:²⁰⁸

- An unexplained gap in employment
- Incomplete or false information on the résumé or application
- A negative, unfavorable, or false reference
- Prior insubordinate or violent behavior on the job²⁰⁹
- A criminal history involving harassing or violent behavior
- A prior termination for cause with a suspicious (or no) explanation
- History of drug or alcohol abuse
- Strong indications of instability as indicated, for example, by frequent job changes or geographic moves
- Lost licenses or accreditations²¹⁰
- Past conflicts (especially if violence was involved) with coworkers
- Past convictions for violent crimes

ESTABLISH A ZERO-TOLERANCE POLICY TOWARD WORKPLACE VIOLENCE This should cover all workers and *anyone* who may come in contact with company personnel.²¹¹

USE WORKPLACE VIOLENCE TRAINING You can also train supervisors to notice the clues that typify potentially violent current employees.

Common clues include²¹²

- An act of violence on or off the job
- Erratic behavior evidencing a loss of perception or awareness of actions
- Overly confrontational or antisocial behavior
- Sexually aggressive behavior
- Isolationist or loner tendencies
- Insubordinate behavior with a threat of violence
- Tendency to overreact to criticism
- Exaggerated interest in war, guns, violence, mass murders, catastrophes, and so on
- Commission of a serious breach of security
- Possession of weapons, guns, knives, or like items in the workplace
- Violation of privacy rights of others, such as searching desks or stalking
- Chronic complaining and the raising of frequent, unreasonable grievances
- A retributory or get-even attitude

GUIDELINES FOR FIRING A HIGH-RISK EMPLOYEE When firing a high-risk employee:

- Plan all aspects of the meeting, including its time, location, the people to be present, and agenda.
- Involve security enforcement personnel.
- Conduct the meeting in a room with a door leading to the outside of the building.
- Advise the employee that he or she is no longer permitted onto the employer's property.
- Keep the termination brief and to the point.
- Make sure he or she returns all company-owned property at the meeting.
- Don't let the person return to his or her workstation.
- Conduct the meeting early in the week and early in the morning so he or she has time to meet with employment counselors or support groups.
- Offer as generous a severance package as possible.
- Protect the employee's dignity by not advertising the event.²¹³
- Managers associated with the dismissal should for a time exercise personal caution.²¹⁴
- Employers should consider hiring a security expert to monitor, for a time, the former employee's social media for threats.²¹⁵

VIOLENCE TOWARD WOMEN AT WORK In U.S., homicides accounted for 10% of those who died at work in one recent year.²¹⁶ Men have more fatal occupational injuries than do women, but the proportion of female victims of assault is a reality. Tangible security improvements including better lighting, female security guards, and similar steps can help. Women (and men) should have access to domestic crisis hotlines,²¹⁷ and to employee assistance programs.

FIGURE 16-6 How to Heighten Security in Your Workplace

Source: See "Creating a Safer Workplace: Simple Steps Bring Results," *Safety Now September 2002*, pp. 1–2. See also www.osha.gov/OshDoc/data_General_Facts/factsheet-workplaceviolence.pdf, accessed September 22, 2015.

- Improve external lighting.
- Use drop safes to minimize cash on hand.
- Post signs noting that only a limited amount of cash is on hand.
- Install silent alarms and surveillance cameras.
- Increase the number of staff on duty.
- Provide staff training in conflict resolution and nonviolent response.
- Close establishments during high-risk hours late at night and early in the morning.
- Issue a weapons policy; for instance, "firearms or other dangerous or deadly weapons cannot be brought onto the facility either openly or concealed."



Securing the Facility

As noted, workplace security relates to protecting employees from internal and external security risks (such as robberies and terrorism). This often starts with facilities security.

In simplest terms, instituting a basic facility security program requires four steps: analyzing the current *level* of risk, and then installing *mechanical*, *natural*, and *organizational* security systems.²¹⁸

At one university, threat assessment team members meet periodically to review potential threats to university students and employees.²¹⁹ Such teams ideally start with an analysis of the facility's *current level of risk*. Here, start with the obvious. For example, what is the neighborhood like? Is the facility adjacent to railyards, or roads?²²⁰ Does your facility (such as your office building) house other businesses or individuals that might bring unsafe activities? As part of this initial threat assessment, also review these six matters:

1. **Reception area access**, including need for a “panic button”;
2. **Interior security**, including secure restrooms, and better identification of exits;
3. **Authorities' involvement**, in particular emergency procedures developed with local law enforcement;
4. **Mail handling**, including screening and opening mail;
5. **Evacuation**, including evacuation procedures and training; and
6. **Backup systems**, such as storing data off site.

Having assessed the potential current level of risk, the employer then turns to assessing and improving natural, mechanical, and organizational security.²²¹

Natural security means capitalizing on the facility's natural or architectural features to minimize security problems. For example, do too many entrances hamper controlling facility access?

Mechanical security is the utilization of security systems such as locks, intrusion alarms, access control systems, and surveillance systems.²²² Here make sure to train local employees to use the security devices and that the devices (cameras, and so on) are maintained.²²³

Finally, *organizational security* means using good management to improve security. For example, it means properly training and motivating security staff and lobby attendants. Ensure that the security staff has written orders that define their duties, especially in situations such as fire, elevator entrapment, hazardous materials spills, medical emergencies, hostile intrusions, suspicious packages, civil disturbances, and workplace violence.²²⁴

Remember, however, that facility security *systems* are not enough. In particular, having security personnel who should be watching your monitors staring at their smart phone screens, or guards who should be challenging visitors nonchalantly letting all through, will defeat your systems. At the end of the day, security is as much (or more) an employee selection, training, evaluation, and motivation problem as a mechanical one.



Terrorism

The employer can take several steps to protect its employees and physical assets from the risk of terrorist attack. These steps, now familiar at many workplaces, include the following:

- Screen the identities of everyone entering the premises.²²⁵
- Check mail carefully.
- Identify ahead of time a lean interim “crisis organization” that can run the company after a terrorist threat.

- Identify in advance under what conditions you will close the company down, as well as the shutdown process.
- Institute a process to put a crisis management team together.
- Prepare evacuation plans, and make sure exits are well marked and unblocked.
- Designate an employee who will communicate with families and off-site employees.
- Identify an upwind, off-site location near your facility as a staging area for all evacuated personnel.
- Designate in advance several employees who will do headcounts at the staging area.
- Establish an emergency communications procedure, for instance based on text messaging or Twitter.

Cybersecurity

Securing the employer's physical facility may do little to prevent cyberattacks of the sort that hit Facebook a while ago; similarly, hackers got personal information of about 22 million U.S. federal employees from Office of Personnel Management (OPM) servers.²²⁶ Organization's employees can also be party to leak sensitive information, which may place the organization liable for action. In the case of Indian banking system, few employees, including a CFO level employee, were found to have shared price sensitive information to outside parties and the banks initiated action against them.²²⁷

Data protection and cybersecurity are specialized areas requiring special expertise. However, some basic guidelines would include: First, *data security is everyone's responsibility*.²²⁸ IT installs firewalls and password systems. However, every employee plays a security role, from the CEO setting policy to first-line employees guarding their passwords. Second, *"old data is bad data."* In other words, destroy unneeded old personal data (say from five years ago) unless it's absolutely required. Third, *encrypt*. That includes data in laptops employees carry with them. Fourth, *monitor*. The IT staff should periodically assess cyber risks. Two of many cybersecurity consultants include Kroll,²²⁹ and KPMG.²³⁰



Business Continuity and Emergency Plans

One source estimates that 40% of companies never reopen after suffering business disruptions from a major catastrophe, so putting a disaster plan in place is imperative.²³¹ National Disaster Management Authority (nmda.gov.in) of Government of India provides resources to states, communities and organizations for emergency preparedness.

To help the employer prepare for potential disasters, the human resource department should develop a plan and identify key responsibilities, make sure all employees are aware of the plan, and train employees regularly.²³² Such plans should cover *early detection of a problem*, *methods for communicating the emergency externally*, and *communications plans for initiating an evacuation*. The initial alarm should come first. The employer should follow that with an announcement providing specific information about the emergency and letting employees know what action they should take.²³³

The employer also needs plans for *business continuity* in the event of a disaster. The employer can designate a secure area of the company Web site for emergency employee communications, listing such things as expected hours of operation, facilities opening schedules, and alternative work locations.²³⁴

The disaster plans should include establishing a command center and identifying employees considered essential in the event of a disaster, including responsibilities for each. Business continuity information is available at www.preparemybusiness.org.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Twitter Notifications

Social media such as Twitter are obvious choices for quickly communicating emergency information to large numbers of dispersed individuals. When a tornado hit Bridgeport, Connecticut, a few years ago, the city's administrators used Twitter to tell citizens about things like power outages and blocked roads. The Canadian Red Cross uses social media to publicize preparedness information and respond to questions from affected communities. And emergency managers, utility companies, and the public used social media to share updates on things like shelter locations when Hurricane Sandy struck the Northeast.²³⁵ ■

Chapter Review

Chapter Section Summaries

- 16-1. The subject **safety and the manager** concerns managers for several reasons, one of which is the number of workplace accidents. Reducing accidents often boils down to reducing accident-causing conditions and accident-causing acts. However, safety always starts at the top.
- 16-2. Because of this, all managers need to be familiar with **occupational safety law**. In U.S., the Occupational Safety and Health Act was passed by Congress in 1972 to assure so far as possible every working man and woman in the nation has safe and healthful working conditions, and to preserve human resources. Government of India has proposed a Labor Code on Occupational Health, Safety and Working Conditions 2018 which is under discussion.
- 16-3. There are three basic **causes of workplace accidents**: chance occurrences, unsafe conditions, and employees' unsafe acts. Unsafe conditions include things like improperly guarded equipment and hazardous procedures. Unsafe acts sometimes reflect personality traits such as impatience and distractibility.
- 16-4. In practice, **how to prevent accidents** boils down to reducing unsafe conditions and reducing unsafe acts. Reducing unsafe conditions is always the first line of defense and includes using checklists and following standards. There are then several basic approaches to reducing unsafe acts, for instance, through proper selection and placement, training, motivation and positive reinforcement, behavior-based safety, employee participation, and conducting safety and health audits.
- 16-5. The centerpiece of Milliken's safety process is its **involvement-based employee engagement program**. Milliken's employees staff the steering and safety subcommittee system, submit "opportunity for improvement" suggestions weekly, review each of these suggestions, and provide feedback on every suggestion.
- 16-6. Most **workplace health hazards** aren't obvious, like unguarded equipment. Typical exposure hazards include, for instance, chemicals, biohazards, and improperly designed equipment. Managing exposure hazards like these comes under the area of industrial hygiene, and involves recognition, evaluation, and control. Stress, burnout, and depression are more serious at work than many people realize, and both the employee and employer can take steps to deal with them. Employers especially need to train supervisors to identify depression's warning signs and to counsel those who may need special services.
- 16-7. Most employers today have **occupational security and risk management programs**. Heightened security measures are an employer's first line of defense against attacks on workers, and include, for instance, improving external lighting. Screening can reduce the risk of hiring potentially violent employees. Instituting a basic facility security program involves analyzing the current level of risk, and then installing mechanical, natural, and organizational security systems.

Discussion Questions

- 16-1. Explain how to reduce the occurrence of unsafe acts on the part of your employees.
- 16-2. Explain the supervisor's role in safety.
- 16-3. Explain what causes unsafe acts.
- 16-4. Describe at least five techniques for reducing accidents.
- 16-5. Explain how you would reduce stress at work.

Individual and Group Activities

- 16-6. Working individually or in groups, answer the question, "Is there such a thing as an accident-prone person?"
- 16-7. Working individually or in groups, compile a list of the factors at work or in school that create stress for you. What methods do you use for dealing with the stress?
- 16-8. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.
- 16-9. A safety journal presented some information about what happens when OSHA refers criminal complaints about willful violations of OSHA standards to the U.S. Department of Justice (DOJ). In one 20-year period, of the 119 cases OSHA referred to the DOJ, only 9 resulted in prison time for at least one of the defendants. "The Department of Justice is a disgrace," charged the founder of an organization for family members of workers killed on the job. One possible explanation for this low conviction rate is that the crime in cases like these is generally a misdemeanor, not a felony, and the DOJ generally tries to focus its attention on felony cases. Given this information, what implications do you think this has for how employers and their managers should manage their safety programs, and why do you take that position?
- 16-10. A worker perched on a suspended metal plank in a high rise construction site in Navi Mumbai fell down and died. Do you think catastrophic failures like this are avoidable? If so, what steps would you suggest the general contractor and the employing organization take to avoid a disaster like this?



Experiential Exercise

How Safe Is My University?

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice in identifying unsafe conditions.

Required Understanding: You should be familiar with material covered in this chapter, particularly that on unsafe conditions and that in Figures 16-5 and 16-7.

How to Set Up the Exercise/Instructions: Divide the class into groups of four. Assume that each group is a safety committee retained by your college's or university's safety engineer to identify and report on

any possible unsafe conditions in and around the school building. Each group will spend about 45 minutes in and around the building you are now in for the purpose of identifying and listing possible unsafe conditions. (Make use of the checklists in Figures 16-5 and 16-7.)

Return to the class in about 45 minutes. A spokesperson for each group should list on the board the unsafe conditions you have identified. How many were there? Do you think these also violate safety standards? How would you go about checking?

GENERAL

	OK	ACTION NEEDED
1. Is the required OSHA workplace poster displayed in your place of business as required where all employees are likely to see it?	☐	☐
2. Are you aware of the requirement to report all workplace fatalities and any serious accidents (where five or more are hospitalized) to a federal or state OSHA office within 48 hours?	☐	☐
3. Are workplace injury and illness records being kept as required by OSHA?	☐	☐
4. Are you aware that the OSHA annual summary of workplace injuries and illnesses must be posted by February 1 and must remain posted until March 1?	☐	☐
5. Are you aware that employers with 10 or fewer employees are exempt from the OSHA record-keeping requirements, unless they are part of an official BLS or state survey and have received specific instructions to keep records?	☐	☐
6. Have you demonstrated an active interest in safety and health matters by defining a policy for your business and communicating it to all employees?	☐	☐
7. Do you have a safety committee or group that allows participation of employees in safety and health activities?	☐	☐
8. Does the safety committee or group meet regularly and report, in writing, its activities?	☐	☐
9. Do you provide safety and health training for all employees requiring such training, and is it documented?	☐	☐
10. Is one person clearly in charge of safety and health activities?	☐	☐
11. Do all employees know what to do in emergencies?	☐	☐
12. Are emergency telephone numbers posted?	☐	☐
13. Do you have a procedure for handling employee complaints regarding safety and health?	☐	☐

WORKPLACE**ELECTRICAL WIRING, FIXTURES, AND CONTROLS**

	OK	ACTION NEEDED
1. Are your workplace electricians familiar with the requirements of the National Electrical Code (NEC)?	☐	☐
2. Do you specify compliance with the NEC for all contract electrical work?	☐	☐
3. If you have electrical installations in hazardous dust or vapor areas, do they meet the NEC for hazardous locations?	☐	☐
4. Are all electrical cords strung so they do not hang on pipes, nails, hooks, etc.?	☐	☐
5. Is all conduit, BX cable, etc., properly attached to all supports and tightly connected to junction and outlet boxes?	☐	☐
6. Is there no evidence of fraying on any electrical cords?	☐	☐
7. Are rubber cords kept free of grease, oil, and chemicals?	☐	☐
8. Are metallic cable and conduit systems properly grounded?	☐	☐
9. Are portable electric tools and appliances grounded or double insulated?	☐	☐
10. Are all ground connections clean and tight?	☐	☐
11. Are fuses and circuit breakers the right type and size for the load on each circuit?	☐	☐
12. Are all fuses free of "jumping" with pennies or metal strips?	☐	☐
13. Do switches show evidence of overheating?	☐	☐
14. Are switches mounted in clean, tightly closed metal boxes?	☐	☐
15. Are all electrical switches marked to show their purpose?	☐	☐
16. Are motors clean and kept free of excessive grease and oil?	☐	☐
17. Are motors properly maintained and provided with adequate overcurrent protection?	☐	☐
18. Are bearings in good condition?	☐	☐
19. Are portable lights equipped with proper guards?	☐	☐
20. Are all lamps kept free of combustible material?	☐	☐
21. Is your electrical system checked periodically by someone competent in the NEC?	☐	☐

**Develop
your own
checklist.**

**These
are only
sample
questions.**

FIGURE 16-7 Self-Inspection Safety and Health Checklist

Source: From OSHA Self-Inspection Checklist for General Industry, from <http://www.safetyhouse.ir/safetyhouse/file/OSHA%20Self-Inspection%20Checklist%20for%20General%20Industry.pdf>, accessed April 10, 2018.

Note: For a more extensive checklist, see "Self-Inspection Checklists," www.osha.gov/Publications/smallbusiness/small-business.html#check, accessed April 10, 2018.

EXITS AND ACCESS

1. Are all exits visible and unobstructed?
2. Are all exits marked with a readily visible sign that is properly illuminated?
3. Are there sufficient exits to ensure prompt escape in case of emergency?
4. Are areas with restricted occupancy posted and is access/egress controlled by persons specifically authorized to be in those areas?
5. Do you take special precautions to protect employees during construction and repair operations?

OK

ACTION
NEEDED☐☐☐☐☐☐☐☐☐☐☐☐**Develop
your own
checklist.****These
are only
sample
questions.****FIRE PROTECTION**

1. Are portable fire extinguishers provided in adequate number and type?
2. Are fire extinguishers inspected monthly for general condition and operability and noted on the inspection tag?
3. Are fire extinguishers recharged regularly and properly noted on the inspection tag?
4. Are fire extinguishers mounted in readily accessible locations?
5. If you have interior standpipes and valves, are these inspected regularly?
6. If you have a fire alarm system, is it tested at least annually?
7. Are employees periodically instructed in the use of extinguishers and fire protection procedures?
8. If you have outside private fire hydrants, were they flushed within the last year and placed on a regular maintenance schedule?
9. Are fire doors and shutters in good operating condition?
Are they unobstructed and protected against obstruction?
10. Are fusible links in place?
11. Is your local fire department well acquainted with your plant, location, and specific hazards?
12. Automatic sprinklers:
Are water control valves, air, and water pressures checked weekly?
Are control valves locked open?
Is maintenance of the system assigned to responsible persons or a sprinkler contractor?
Are sprinkler heads protected by metal guards where exposed to mechanical damage?
Is proper minimum clearance maintained around sprinkler heads?

OK

ACTION
NEEDED☐☐**HOUSEKEEPING AND GENERAL
WORK ENVIRONMENT**

1. Is smoking permitted in designated "safe areas" only?
2. Are NO SMOKING signs prominently posted in areas containing combustibles and flammables?
3. Are covered metal waste cans used for oily and paint-soaked waste?
Are they emptied at least daily?
4. Are paint spray booths, dip tanks, etc., and their exhaust ducts cleaned regularly?
5. Are stand mats, platforms, or similar protection provided to protect employees from wet floors in wet processes?
6. Are waste receptacles provided and are they emptied regularly?
7. Do your toilet facilities meet the requirements of applicable sanitary codes?
8. Are washing facilities provided?
9. Are all areas of your business adequately illuminated?
10. Are floor load capacities posted in second floors, lofts, storage areas, etc.?
11. Are floor openings provided with toe boards and railings or a floor hole cover?
12. Are stairways in good condition with standard railings provided for every flight having four or more risers?
13. Are portable wood ladders and metal ladders adequate for their purpose, in good condition, and provided with secure footing?
14. If you have fixed ladders, are they adequate, and are they in good condition and equipped with side rails or cages or special safety climbing devices, if required?
15. For loading docks:
Are dockplates kept in serviceable condition and secured to prevent slipping?
Do you have means to prevent car or truck movement when dockplates are in place?

OK

ACTION
NEEDED☐☐**FIGURE 16-7 Continued**

MACHINES AND EQUIPMENT

	OK	ACTION NEEDED
1. Are all machines or operations that expose operators or other employees to rotating parts, pinch points, flying chips, particles, or sparks adequately guarded?	☐	☐
2. Are mechanical power transmission belts and pinch points guarded?	☐	☐
3. Is exposed power shafting less than 7 feet from the floor guarded?	☐	☐
4. Are hand tools and other equipment regularly inspected for safe condition?	☐	☐
5. Is compressed air used for cleaning reduced to less than 30 psi?	☐	☐
6. Are power saws and similar equipment provided with safety guards?	☐	☐
7. Are grinding wheel tool rests set to within 1/8 inch or less of the wheel?	☐	☐
8. Is there any system for inspecting small hand tools for burred ends, cracked handles, etc.?	☐	☐
9. Are compressed gas cylinders examined regularly for obvious signs of defects, deep rusting, or leakage?	☐	☐
10. Is care used in handling and storing cylinders and valves to prevent damage?	☐	☐
11. Are all air receivers periodically examined, including the safety valves?	☐	☐
12. Are safety valves tested regularly and frequently?	☐	☐
13. Is there sufficient clearance from stoves, furnaces, etc., for stock, woodwork, or other combustible materials?	☐	☐
14. Is there clearance of at least 4 feet in front of heating equipment involving open flames, such as gas radiant heaters, and fronts of firing doors of stoves, furnaces, etc.?	☐	☐
15. Are all oil and gas fired devices equipped with flame failure controls that will prevent flow of fuel if pilots or main burners are not working?	☐	☐
16. Is there at least a 2-inch clearance between chimney brickwork and all woodwork or other combustible materials?	☐	☐
17. For welding or flame cutting operations:		
Are only authorized, trained personnel permitted to use such equipment?	☐	☐
Have operators been given a copy of operating instructions and asked to follow them?	☐	☐
Are welding gas cylinders stored so they are not subjected to damage?	☐	☐
Are valve protection caps in place on all cylinders not connected for use?	☐	☐
Are all combustible materials near the operator covered with protective shields or otherwise protected?	☐	☐
Is a fire extinguisher provided at the welding site?	☐	☐
Do operators have the proper protective clothing and equipment?	☐	☐

**Develop
your own
checklist.**

**These
are only
sample
questions.**

MATERIALS

	OK	ACTION NEEDED
1. Are approved safety cans or other acceptable containers used for handling and dispensing flammable liquids?	☐	☐
2. Are all flammable liquids that are kept inside buildings stored in proper storage containers or cabinets?	☐	☐
3. Do you meet OSHA standards for all spray painting or dip tank operations using combustible liquids?	☐	☐
4. Are oxidizing chemicals stored in areas separate from all organic material except shipping bags?	☐	☐
5. Do you have an enforced NO SMOKING rule in areas for storage and use of hazardous materials?	☐	☐
6. Are NO SMOKING signs posted where needed?	☐	☐
7. Is ventilation equipment provided for removal of air contaminants from operations such as production grinding, buffing, spray painting and/or vapor degreasing, and is it operating properly?	☐	☐
8. Are protective measures in effect for operations involved with x-rays or other radiation?	☐	☐
9. For lift truck operations:		
Are only trained personnel allowed to operate forklift trucks?	☐	☐
Is overhead protection provided on high lift rider trucks?	☐	☐
10. For toxic materials:		
Are all materials used in your plant checked for toxic qualities?	☐	☐
Have appropriate control procedures such as ventilation systems, enclosed operations, safe handling practices, proper personal protective equipment (such as respirators, glasses or goggles, gloves, etc.) been instituted for toxic materials?	☐	☐

FIGURE 16-7 Continued

**Develop
your own
checklist.**

**These
are only
sample
questions.**

EMPLOYEE PROTECTION

	OK	ACTION NEEDED
1. Is there a hospital, clinic, or infirmary for medical care near your business?	☐	☐
2. If medical and first-aid facilities are not nearby, do you have one or more employees trained in first aid?	☐	☐
3. Are your first-aid supplies adequate for the type of potential injuries in your workplace?	☐	☐
4. Are there quick water flush facilities available where employees are exposed to corrosive materials?	☐	☐
5. Are hard hats provided and worn where any danger of falling objects exists?	☐	☐
6. Are protective goggles or glasses provided and worn where there is any danger of flying particles or splashing of corrosive materials?	☐	☐
7. Are protective gloves, aprons, shields, or other means provided for protection from sharp, hot, or corrosive materials?	☐	☐
8. Are approved respirators provided for regular or emergency use where needed?	☐	☐
9. Is all protective equipment maintained in a sanitary condition and readily available for use?	☐	☐
10. Where special equipment is needed for electrical workers, is it available?	☐	☐
11. When lunches are eaten on the premises, are they eaten in areas where there is no exposure to toxic materials, and not in toilet facility areas?	☐	☐
12. Is protection against the effect of occupational noise exposure provided when the sound levels exceed those shown in the OSHA noise standard?	☐	☐

FIGURE 16-7 Continued

Application Case

The Dangerous Third Shift

Written and copyrighted by Gary Dessler, PhD.

More than 100 years ago, Upton Sinclair wrote his famous book, *The Jungle*, about the outrageous conditions in Chicago-area slaughterhouses. Although slaughterhouse conditions have undoubtedly improved, working in meatpacking plants can still be strikingly dangerous.²³⁶

In one such plant, in Kansas, the first two (daytime) work shifts oversee the actual processing of approximately 6,000 cows per day. After that, the third, 11 P.M. shift starts as the sanitation crews arrive. These workers have to wade through slippery conditions, including grease and parts left over from the day shifts' work. The sanitation crew's job is to clean the plant and its machines and conveyors with boiling water and disinfectants.

Several years ago, a female sanitation crew worker was finishing cleaning the belt on one of the conveyors. She had shut down the conveyor when she cleaned it. However, after turning it back on, she noticed she had missed some animal fat dirt below the conveyor. With the belt still moving she reached under it to

get the dirt. She lost her balance and tried to catch herself, but her hand and then her arm were drawn into the machine and completely mangled.

Questions

- 16-11. No doubt many problems contributed to this severe accident. However, if you had to choose just one thing that you would tell the meatpacking company to change, what would it be?
- 16-12. Would it be advisable for them to set up a procedure for screening out accident-prone individuals? Why or why not? If so, how should they screen them?
- 16-13. Write a short position paper on the subject, "What should we do in this plant to get all our employees to behave more safely at work?"
- 16-14. Based on what you learned from this chapter, write a short position paper on the subject, "What should we do to reduce the chances of accidents like this in our meatpacking plant? Please make sure to list at least 5–10 specific things you would suggest."

Continuing Case

Carter Cleaning Company

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The New Safety Program

Employees' safety and health are very important matters in the laundry and cleaning business. Each facility is a small production plant in which machines, powered by high-pressure steam and compressed air, work at high temperatures washing, cleaning, and pressing garments, often under very hot, slippery conditions. Chemical vapors are produced continually, and caustic chemicals are used in the cleaning process. High-temperature stills are almost continually "cooking down" cleaning solvents in order to remove impurities so that the solvents can be reused. If a mistake is made in this process—like injecting too much steam into the still—a boilover occurs, in which boiling chemical solvent erupts out of the still and over the floor, and on anyone who happens to be standing in its way.

As a result of these hazards and the fact that chemically hazardous waste is continually produced in these stores, several government agencies (including OSHA and the Environmental Protection Agency) have instituted strict guidelines regarding the management of these plants. For example, posters have to be placed in each store notifying employees of their right to be told what hazardous chemicals they are dealing with and what the proper method for handling each chemical is. Special

waste-management firms must be used to pick up and properly dispose of the hazardous waste.

A chronic problem the Carters (and most other laundry owners) have is the unwillingness on the part of the cleaning/spotting workers to wear safety goggles. Not all the chemicals they use require safety goggles, but some—like the hydrofluoric acid used to remove rust stains from garments—are very dangerous. The latter is kept in special plastic containers, since it dissolves glass. The problem is that wearing safety goggles can be troublesome. They are somewhat uncomfortable, and they become smudged easily and thus cut down on visibility. As a result, Jack has always found it almost impossible to get these employees to wear their goggles.

Questions

- 16-15. How should the firm go about identifying hazardous conditions that should be rectified? Use checklists such as those in Figures 16-5 and 16-7 to list at least 10 possible dry cleaning store hazardous conditions.
- 16-16. Would it be advisable for the firm to set up a procedure for screening out accident-prone individuals? How should they do so?
- 16-17. How would you suggest the Carters get all employees to behave more safely at work? Also, how would you advise them to get those who should be wearing goggles to do so?

Translating Strategy into HR Policies and Practices Case^S

Improving Performance at the Hotel Paris

The New Safety and Health Program

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance, by eliciting the required employee behaviors and competencies.

While "hazardous conditions" might not be the first thing that comes to mind when you think of hotels, Lisa Cruz knew that hazards and safety were in fact serious issues for the Hotel Paris. Indeed, everywhere you look—from the valets leaving car doors open on the driveways to slippery areas around the pools, to thousands of pounds of ammonia, chlorine, and other caustic chemicals that the hotels use each year for cleaning and laundry, hotels provide a fertile environment for accidents. Obviously, hazardous conditions are bad for the Hotel Paris. They are inhumane for the workers. High accident rates probably reduce employee morale and thus service. And accidents raise the company's costs and reduce its profitability, for instance, in terms of workers' compensation

claims and absences. Lisa knew that she had to clean up her firm's occupational safety and health systems, for its employees' well-being, and to achieve the company's strategic goals.

Lisa and the CFO reviewed their company's safety records, and what they found disturbed them. In terms of every safety-related metric they could find, including accident costs per year, lost time due to accidents, workers' compensation per employee, and number of safety training programs per year, the Hotel Paris compared unfavorably with most other hotel chains and service firms. "Just in terms of extra workers' compensation costs, the Hotel Paris must be spending \$500,000 a year more than we should be," said the CFO. And that didn't include lost time due to accidents, or the negative effect accidents had on employee morale, or the cost of litigation (as when, for instance, one guest accidentally burned himself with chlorine that a pool attendant had left unprotected). The CFO authorized Lisa to develop a new safety and health program.

Lisa and her team began by hiring a safety and health consultant, someone who had been an inspector and then manager with OSHA. Based on the analysis, the team then took numerous steps, including the following. First, specially trained teams consisting of someone from Lisa's HR group, the local hotel's assistant

manager, and three local hotel employees went through each local hotel “with a fine-tooth comb,” as Lisa put it. They used an extensive checklist to identify and eliminate unsafe conditions.

Lisa’s team took other steps. They convinced the Hotel Paris’s board of directors and chairman and CEO to issue a joint statement emphasizing the importance of safety, and the CEO, during a one-month period, visited each hotel to meet with all employees and emphasize safety. The Hotel Paris also contracted with a safety training company. This firm created special online safety programs for the company’s managers, and developed five-day training seminars for the hotels’ staffs.

The new programs seem to be effective. Lisa and the CFO were pleased to find, after about a year, that accident costs per year, lost time due to accidents, and workers’ compensation expenses were all down at least 40%. And anecdotal evidence from supervisors suggested that employees feel better about the company’s commitment to them and were providing better service as a result.

Questions

- 16-18. Based on what you read in this chapter of Dessler *Human Resource Management*, what’s the first step you would have advised the Hotel Paris to take as part of its new safety and health program, and why?
- 16-19. List 10 specific high-risk areas in a typical hotel you believe Lisa and her team should look at now, including examples of the safety or health hazards that they should look for there.
- 16-20. Give three specific examples of how the Hotel Paris can use HR practices to improve its safety efforts.
- 16-21. Write a one-page summary addressing the topic, “How improving safety and health at the Hotel Paris will contribute to us achieving our strategic goals.”

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Key Terms

Occupational Safety and Health Act of 1970, 583

occupational illness, 584
unsafe conditions, 587

job hazard analysis, 590
operational safety reviews, 593
behavior-based safety, 598

safety awareness program, 599
burnout, 606

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Managing Global Human Resources

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 17-1** **List** the HR challenges of international business.
- 17-2** **Illustrate** with examples how intercountry differences affect HRM.
- 17-3** **List and briefly describe** the main methods for staffing global organizations.
- 17-4** **Discuss** some important issues to keep in mind in training, appraising, and compensating international employees.
- 17-5** **Discuss** similarities and differences in employee engagement around the globe.
- 17-6** **Explain** with examples how to implement a global human resource management program.

Hundai Capital's strategy includes becoming what it calls a "Global One Company." For example, it is unifying its organizational structure, products and services, and management practices worldwide.¹ Its HR group needed a new human resource strategy to similarly ensure that its human resource practices in countries around the world were standardized. We'll see what they did.



WHERE ARE WE NOW . . .

More managers today are managing people internationally. The purpose of this chapter is to improve your effectiveness at applying your human resource knowledge and skills when global challenges are involved. The topics we'll discuss include **The Manager's Global Challenge, Adapting Human Resource Activities to Intercountry Differences, Staffing the Global Organization, Training and Maintaining Employees Abroad, Employee Engagement Globally, and Managing HR Locally: How to Implement a Global HR System.**

LEARNING OBJECTIVE 17-1

List the HR challenges of international business.

The Manager's Global Challenge

You don't have to dig very far to see how important international business is to companies here and abroad. For example, the total of U.S. imports plus exports rose from \$562 billion in 1980, to about \$5.2 *trillion* recently.² India's exports also have been growing, and according to GOI data during 2018-19 has crossed (provisionally) U.S. \$ half trillion mark.³ The growth has been great for all sorts of businesses, but also confronts managers with special challenges. For one thing, managers have to formulate and execute their marketing, product, and production plans on a global basis. Ford Motor, for instance, has a strategy aimed at offering similar Ford vehicles globally.

"Going global" also requires addressing international human resource management issues. For example, "Should we staff our offices in Japan with local or Indian managers?" And, "How should we appraise and pay our China based employees?"

As we'll see in a moment, the challenging thing about managing HR globally is that what works in one country may not work in another. The employer faces an array of political, social, legal, and cultural differences among countries and people abroad. Therefore, for instance, telling employees in Russia that they're "empowered" and should use their initiative may prompt stony silence, while the same suggestion in Canada prompts initiatives and ideas. Distance adds to the challenge. For example, how should Starbucks' chief HR officer, based in Seattle, monitor Starbucks' human resource managers in China? Yet, challenging or not, the employer needs a way to deal with such questions.

international human resource management (IHRM)

The human resource management concepts and techniques employers use to manage the human resource aspects of their international operations, including acquiring, training, appraising, and compensating employees, and attending to their labor relations, health and safety, and fairness concerns.

What Is International Human Resource Management?

Employers rely on **International Human Resource Management (IHRM)** to deal with global HR challenges like these.⁴ We can define IHRM as the human resource management concepts and techniques employers use to manage the human resource aspects of their international operations, including acquiring, training, appraising, and compensating employees, and attending to their labor relations, health and safety, and fairness concerns. IHR managers address questions such as "What steps can we take to support the company's global strategy?" "What's the best way for us to pay our expatriate employees?" and "How can we best staff our assignments abroad with global leaders?"⁵



LEARNING OBJECTIVE 17-2

Illustrate with examples how intercountry differences affect HRM.

Adapting Human Resource Activities to Intercountry Differences

As we said, the challenges of international human resource management don't just stem from the distances involved (though this is important). The bigger issue is dealing with the cultural, political, legal, and economic differences among countries and their people. The result is that what works in one country might fail in another.

Companies operating only within the United States or India or China generally have the luxury of dealing with a relatively limited set of economic, cultural, and legal variables. Economically the United States is a capitalist,

FIGURE 17-1 Critical Intercountry Differences That Influence International HR Practices



competitive society while India is an emerging economy aiming to become ₹5 trillion economy in five years.⁶ And while the U.S. workforce reflects a multitude of cultural and ethnic backgrounds, shared values (such as an appreciation for democracy) help to blur cultural differences. Different U.S. states and municipalities certainly have their own employment laws. However, a basic federal framework of U.S. helps produce a predictable set of legal guidelines regarding matters such as employment discrimination and labor relations.

A company operating multiple units abroad doesn't face such homogeneity. For example, minimum legally mandated holidays range from none in the United Kingdom to 5 weeks in Luxembourg. Every month, full moon day is a national public holiday in Sri Lanka⁷ and the total holidays are 26.⁸ Italy has no formal requirements for employee representatives on boards of directors, but they're usually required in Denmark. Apart from cultural differences, absence of "Institutional voids" or limited mechanisms that efficiently connect buyers and sellers in the economy, particularly in emerging economies often make working in such countries challenging.⁹ The point is that managers have to adapt their human resource policies and practices to the countries in which they're operating. Figure 17-1 sums up critical intercountry differences.

Cultural Factors

For example, countries differ widely in their *cultures*—in other words, in the basic values, assumptions, and understandings their citizens share.¹⁰ Peoples' values and assumptions tend to drive what they do, and so cultural differences manifest themselves in how people in different countries think and act. For example, one Michelin executive said that when he gives performance feedback in France, employees don't think it's necessary to mention what's right because they know what they've done right. He focuses instead on what's wrong.¹¹ That approach would surprise most U.S. employees, so there's a tendency for U.S. managers to sugarcoat what's wrong.

In China, heads of companies are inclined to see employees as members of their family, but in turn demand much of them.¹²

As another example, one expert says that workers around the world tend to have differing attitudes toward authority and decision making.¹³ With respect to *authority*, countries range from egalitarian to hierarchical. For example, in the more egalitarian United States and Canada, managers emphasize worker empowerment and soliciting input, while in hierarchical countries like Saudi Arabia and Russia authority clearly resides in top managers. Similarly, differences in how they *make decisions* characterize cultures around the world. Thus, in the United States and Mexico, top-down decision making tends to be the rule, while in Sweden and Japan the emphasis is on consensus decisions.

Such differences can cause consternation for multinational employers. For example, employees in hierarchical countries such as Indonesia might react negatively to a manager from the U.S. soliciting their opinions. Similarly, employees in egalitarian countries like Sweden, (where even schoolchildren call their teachers by their first name) might react negatively to a boss from abroad who emphasizes his or her “bossiness.”

THE HOFSTEDE STUDY Studies by Professor Geert Hofstede further illustrate international cultural differences. Hofstede says societies differ in five values, which he calls *power distance*, *individualism*, *masculinity*, *uncertainty avoidance*, and *long-term orientation*. For example, power distance represents the degree to which less-powerful people accept the unequal distribution of power in society.¹⁴ He concluded that acceptance of such inequality was higher in some countries (such as Mexico) than in others (such as Sweden).¹⁵ In turn, such differences manifest themselves in different behaviors. To see how your country’s culture compares with others, go to <https://geerthofstede.com/culture-geert-hofstede-gert-jan-hofstede/6d-model-of-national-culture/>.

Such cultural differences influence human resource policies and practices. For example, Americans’ emphasis on individuality may help explain why European managers have more constraints, such as in dismissing workers.¹⁶

Employers need to adapt their HR practices to the cultures of the countries where they do business.

Shafiqui Alam/Alamy Stock Photo





India is rated as high in Power Distance and is a collectivist society, with strong long term orientation. Its also a highly masculine country, with medium to low score in uncertainty avoidance.¹⁷ While masculinity is visibly present in displays of power and success and uncertainty avoidance aids acceptance of imperfections and not sticking to plans or time schedules.¹⁸ As another example, in countries with a history of autocratic rule, employees often had to divulge information. Here, whistle-blower rules are less popular.¹⁹

Legal Factors

Employers expanding abroad must also be familiar with the labor laws in the countries they're entering. For example, in India, companies with more than 100 workers need government permission to fire anyone.²⁰ In UAE, where large migrant workforce exists, labor laws have been designed to protect their interests also. Foreign workers are entitled to leave and other benefits, and employer is prohibited from charging employees for visa or keeping their passports.²¹ In Brazil, firing someone without “just cause” could trigger a fine of 4% of the total amount the worker ever earned.²²

Similarly, the U.S. practice of employment at will doesn't exist in Europe, where firing or laying off workers is usually expensive. One firm there hired someone as an independent contractor, only to find later that they owed the person hundreds of thousands of dollars in back taxes and penalties for misclassifying the person.²³ And in many European countries, **works councils**—formal, employee-elected groups of worker representatives—meet monthly with managers on topics ranging from no-smoking policies to layoffs.²⁴ *Code-termination* is the rule in Germany and several other countries. **Co-dermination** means workers have the right to have their own elected representatives on the employer's supervisory board.²⁵

Economic Systems

Similarly, differences in *economic systems* translate into differences in inter-country HR practices. In *market* economies (such as the United States), governments play a relatively restrained role in deciding what will be produced and sold at what prices. In *planned* economies (such as North Korea), the government decides and plans what to produce and sell at what price. In *mixed* economies (such as China), many companies are still state owned, while others make decisions based on market demand.

Differences in economic systems tend to translate into differences in human resource management policies. For instance, dismissing employees in China or Europe is more difficult than in the United States. Labor costs also vary widely. For example, hourly compensation costs (in U.S. dollars) for production workers range from \$2.10 in the Philippines to \$9.46 in Taiwan, \$35.67 in the United States, \$45.79 in Germany, to \$63.86 in Norway.²⁶

HR Abroad Example: The European Union

To appreciate the employment effects of cultural, economic, and legal differences like these, consider Europe and China. The separate countries of the former European Community (EC) unified into a common market for goods, services, capital, and even labor called the *European Union (EU)*. Tariffs for goods moving across borders from one EU country to another generally disappeared, and employees generally move freely between jobs in EU countries.

works councils

Formal, employee-elected groups of worker representatives.

codetermination

Employees have the legal right to a voice in setting company policies.



The introduction of a single currency (the euro) by a subset of EU countries further blurred differences. Despite (or perhaps partly because of) Greece's fiscal problems, EU countries today are discussing moving toward increased economic integration.

Companies doing business in Europe must adjust their human resource policies and practices to EU directives (laws), as well as to country-specific employment laws. The directives are binding on all member countries, but each country can implement them as they wish. Some laws are applied fairly similarly across Europe. For example, Germany has high barriers to dismissal, in Italy poor performance is not a reason for dismissal, and in Norway a dismissal must be justified based on the evidence.²⁷ (Whirlpool Corporation spent more than 3 years trying to eliminate 500 jobs in Italy, while [for better or worse] it took them less than a year to dismiss 1,000 people in Arkansas.)²⁸ Other details, such as whether job offers must be in writing, and whether there is a mandatory minimum wage (yes in Germany, no in Austria) vary among European countries.²⁹

HR Abroad Example: China

For years, employers relied on China's huge workforce to provide products and services at low cost. Part of the reason for the low labor cost was the dearth of labor laws on things like severance pay, minimum wages, and benefits.

But things are changing. For one thing, China's workforce, while still huge, is growing less quickly. For another, China enacted a labor law. This adds many new employment protections for employees, and makes it more expensive for employers in China to implement personnel actions such as layoffs. Multinational companies doing business in China argue that the law will raise labor costs and make it difficult to lay off employees, by instituting new severance package rules.³⁰ Local firms, including the remaining state-owned enterprises, tend to use fewer modern human resource management tools than do private Chinese multinationals like Lenovo, but they must all deal with the fallout of the labor law. There are therefore wide variations in how companies in China deal with HR issues such as the following.³¹

RECRUITING Compared to some Western countries, it is still relatively difficult to recruit, hire, and retain good employees. However, it is observed that over time, China has moved from capital-oriented market to a talent focused market, though finding qualified candidates is a challenge.³² China's employment contract law requires, among many other things, that employers report the names, sexes, identification numbers, and contract terms for all employees they hire within 30 days of hiring to local labor bureaus.³³

In China, recruiting effectiveness depends on non-recruitment human resource management issues. Employees gravitate toward employers that provide the best career advancement training and opportunities.³⁴ Firms like Siemens China, with impressive training and development programs, have the least difficulty attracting good candidates. Poaching employees is a serious matter in China. The employer must verify that the applicant is free to sign a new employment agreement.

SELECTION The dominant employee selection method involves analyzing the applicant's résumé and then interviewing him or her. The ideal way to do this is to institute a structured interview process, as many of the foreign firms in China have done.

COMPENSATION Although many managers endorse performance-based pay in China, other employers, to preserve group harmony, make incentive pay a small part of the pay package. And, as in other parts of Asia, team incentives are advisable.³⁵

LABOR UNIONS Chinese facilities of IBM, PepsiCo, Walmart, and others have seen extensive strikes by Chinese workers.³⁶ Several things may be contributing to the strikes. China's new labor law expands workers' rights. An aging population in China means a diminishing supply of factory workers. And China's government may see the strikes as a way of raising workers' incomes and thus boosting consumer spending. China's All-China Federation of Trade Unions is closely tied to the government.



LEARNING OBJECTIVE 17-3

List and briefly describe the main methods for staffing global organizations.

Staffing the Global Organization

International employers' focus today is increasingly on managing human resource activities locally. In other words, their main concern is on selecting, training, appraising, and managing the in-country employees where they do business. However, deciding whether to fill local positions with local versus expatriate ("imported") employees remains a major concern.

HR in Action at the Hotel Paris On reviewing the data, it was apparent to Lisa and the CFO that the company's global human resource practices were probably inhibiting the Hotel Paris from being the world-class guest services company that it sought to be. To see how they handled this, see the case on page 654 of this chapter.

expatriates (expats)

Noncitizens of the countries in which employees are working.

parent or home-country nationals

Citizens of the country in which the multinational company has its headquarters.

third-country nationals

Citizens of a country other than the parent or the host country.

locals

Citizens of the countries in which employees are working; also called *host-country nationals*.

International Staffing: Home or Local?

In general, we can staff an international company with *expatriates*, *parent (or home-country) nationals*, *locals (host-country nationals)*, or *third-country nationals*.³⁷ **Expatriates (expats)** are non-citizens of the countries in which they are working. In terms of where they come from, expatriates may also be **parent or home-country nationals**, citizens of the country in which the company is headquartered. Expatriates may also be **third-country nationals**—citizens of a country other than the parent or the host country—for example, a French executive working in the Beijing office of IBM. (And not all expatriates are sent there by employers; many recent graduates, academics, and business professionals decide to move, live, and work abroad.)³⁸ **Locals** (also known as *host-country nationals*) work for the company abroad and are citizens of the countries where they are working.

Internationalization Stage, Values, and Staffing Policy

Whether to use expatriates, locals, or some other type generally depends on quantifiable considerations (such as cost). However, it's not just hard facts that influence such decisions. Top management's personal inclinations and the company's stage in internationalization affect these decisions too. As a result, some companies are just more expat-oriented or local-oriented. Experts here distinguish among *ethnocentric*, *polycentric*, or *global* companies.

In an **ethnocentrically** oriented company, the company tends to staff its positions abroad with employees from its headquarters—with parent-country nationals, in other words.³⁹ The **polycentric** company staffs positions

ethnocentric

Here the company staffs its positions abroad with employees from its headquarters—with parent-country nationals, in other words.

polycentric

Here the company staffs positions abroad with local or host-country employees.

global

The global company aims to attract the best candidates globally, including freely using third-country nationals to staff its positions around the world with the best people available.

abroad with local or host-country employees. And the **global** company aims to attract the best candidates globally, including freely using third-country nationals to staff its positions around the world with the best people available.

The company's stage in internationalization and its managers' inclinations both affect whether the company is inclined toward being ethnocentric, polycentric, or global in its staffing.⁴⁰ Companies new to the international arena may well run their international operations from "international" units within their corporate headquarters.⁴¹ Here, the practical need to quickly transfer know-how abroad and to maintain a unified corporate culture and tighter control argue for an ethnocentric approach.⁴² The company transfers abroad people (as expatriates) it knows well.

That "international" structure may evolve into a "multinational" structure, where subsidiaries abroad (often with their own HR units) largely control themselves. This tends to favor a polycentric staffing approach, wherein local, host-country employees, who know the local conditions best, staff the company's local positions.

Today, for many companies, the trend is toward being "global" companies. Global companies seek to be fully integrated. For example, a car to be sold throughout the world might be designed in France and manufactured in China and the United States with parts from Japan. Global companies not surprisingly tend to use a global philosophy in staffing its positions around the world, by filling positions with the best people—whether host-country nationals, locals, or third-country nationals.

EXPATS VERSUS LOCALS There are other considerations in using expats over locals. The employer may be unable to find local candidates with the required qualifications. Companies like GE traditionally viewed a successful stint abroad as a required step in developing top managers. Furthermore, home-country managers are already steeped in the firm's policies and culture, and thus more likely to apply headquarters' ways of doing things. Expatriates may also find it easier to coordinate with their former colleagues at the company's parent-country headquarters than would host-country locals.⁴³

However, posting expatriates abroad is expensive, security problems give potential expatriates pause, returning expatriates often leave for other employers within a year or two, and educational facilities are turning out top-quality candidates abroad. As a result, new expatriate postings tend to be down. A survey several years ago found that about 47% of U.S. multinationals were maintaining the size of their expat workforces, 18% were increasing it, and 35% were decreasing it.⁴⁴ However, about half the global companies in another survey said they were doubling the number of expats they send to fast-growing countries such as China.⁴⁵

From a practical point of view, most employees will be locals, for good reason. First, the cost of using expatriates is usually far greater than that of local workers.⁴⁶ Furthermore, in one survey, employers reported a 21% attrition rate for expatriate employees, compared with 10% for their general employee populations.⁴⁷ Local people will also probably better deal with local political issues than will expatriates.⁴⁸



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Job Boards Abroad

Although a few U.S.-based job boards (like Indeed, and Monster) are global, most countries have their own major job boards. For instance, there is www.51job.com in China, www.careerone.com.au in Australia and New Zealand, and www.laborum.cl in Latin America.⁴⁹ Indian sites like Naukri.com and Monster India provide dedicated jobs abroad listings. ■

OTHER SOLUTIONS The choice is not just between expatriate versus local employees. For example, there are “commuter” solutions, involving frequent international travel but no formal relocation.⁵⁰

One survey found that about 78% of surveyed employers had some form of “localization” policy. This is a policy of transferring a home-country national employee to a foreign subsidiary as a “permanent transferee.”⁵¹ For example, U.S. IBM employees originally from India eventually filled many of the 5,000 jobs that IBM shifted from the United States to India. These employees elected to move back to India, albeit at local India pay rates. Public sector banks like SBI and BOB with branches abroad transfer home country employees to international branches for specific periods, after which they return back. This serves both as developmental and global staffing solution for the banks. The human resource team needs to control expat expenses, as the accompanying Profit Center feature explains.



IMPROVING PERFORMANCE: HR AS A PROFIT CENTER

Reducing Expatriate Costs

Given the expense of sending employees abroad for overseas assignments, the employer’s human resource team plays a big role in controlling and reducing expatriate costs. A survey shows some of the steps HR managers are taking to reduce these expenses.⁵² First, companies are upping the numbers of short-term assignments they make. This lets them use short-term expats to replace some long-term expats (and their families) who the company must maintain abroad for extended periods. Fifty percent of the companies surveyed are also replacing some expatriate postings with local hires. With an eye on cutting costs, many employers were also reviewing their firms’ policies regarding such things as housing, education, and home leave, along with expatriate allowances and premiums (cost-of-living allowance and mobility/quality-of-living premiums).⁵³ The bottom line is that there’s a lot human resource managers can do to cut costs and boost profits by better managing expat assignments. ■

OFFSHORING As we explained in Chapter 5, *offshoring*—moving business processes such as manufacturing or call-center operations abroad, and thus having local employees abroad do jobs that the firm’s domestic employees previously did in-house—is another staffing option.

IBM Business Consulting Services surveyed employers to see what roles HR was playing in offshoring and overseas site selection decisions.⁵⁴ Here, human resource managers help top management:⁵⁵

- To understand the *local labor markets*, for example, in terms of their size, education levels, and unions.
- To understand how the firm's current *employment-related reputation* in the locale may affect outsourcing to here.
- To decide how much the firm should *integrate the local workforce* into the parent firm's corporate organization. For example, engineers might best become employees. Others (such as call centers) might best remain employees of vendor firms.
- To deal with skill shortages.⁵⁶ This often requires using signing bonuses, higher wages, and improved promotion opportunities.
- To identify how to reduce attrition. This might include more training and development, better compensation, and improved career opportunities.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

Using Global Virtual Teams

Advances in telecommunications make it far easier today to carry out international projects and operations using global virtual teams. Global **virtual teams** are groups of geographically dispersed and generally same-level coworkers who meet and interact using information technologies to accomplish an organizational task.⁵⁷ For example, two multinational pharmaceutical companies used a multinational team with members from four continents to address detailed postmerger operational integration problems.

In a Skype and FaceTime world, virtual teams are both practical and popular. Collaborative software systems such as Microsoft NetMeeting conference system,⁵⁸ Cisco WebEx,⁵⁹ and GoToMeeting⁶⁰ enable virtual teams to hold live project reviews and discussions, share documents and exhibits, and store the sessions on the project's Web site. Cloud-based tools such as Huddle⁶¹ allow team members to attend from wherever they are using mobile devices, Microsoft Project lets project team members manage tasks and flag issues and risks,⁶² and Dropbox⁶³ facilitates cloud-based document storage. If necessary, large-screen tools such as Cisco Immersive TelePresence⁶⁴ make it seem as if team members are together in the same room, although they may be thousands of miles apart.

The main challenges virtual teams face are often people related. Challenges include building trust, cohesion, and team identity, and overcoming the isolation among team members. Similarly, if most team members reside in one country, the others may assume that the real power also lays in that country. Here the solution is to stress that the team has a unified goal and a common purpose.⁶⁵ The point is that human resource management plays an important role in such teams' success. Selecting virtual team members for their interpersonal skills, and then training them to deal with potential problems such as conflict avoidance and how to build trust is important. A study on employee engagement in Virtual Teams conducted among India based employees of Cynt Inc, who work as part of such teams identified five dimensions of engagement. They are, cultural intelligence, communication (formal and informal), technology, trust and individual maturity.⁶⁶ ■

virtual teams

Groups of geographically dispersed and generally same-level co-workers who meet and interact using information technologies to accomplish an organizational task.

Selecting International Managers

In most respects, screening managers for jobs abroad is similar to screening them for domestic jobs. Candidates need the technical knowledge and skills to do the job, and the required intelligence and people skills. Testing is widely used.

However, foreign assignments are different. The expatriate and his or her family will have to cope with and adapt to colleagues whose culture may be very different from their own. And, there's the stress of being in a foreign land. Ironically, one study a while ago concluded, "Traditionally, most selection of expatriates appears to be done solely on the basis of successful records of job performance in the home country."⁶⁷ The candidate's ability to adapt to a new culture is often secondary. That's exactly opposite from what it should be.

REALISTIC PREVIEWS Ideally, international assignee selection should therefore include *realistic previews*, and *adaptability screening procedures*.⁶⁸ Even in the most familiar countries there will be language barriers, and challenges for the family including homesickness and the need to adapt to new friends. It's important here to both reduce unrealistic expectations and familiarize the expat with potential challenges and benefits.⁶⁹ Realistic previews about what to expect, covering both problems and benefits, are therefore important. Many employers have prospective expat families meet with recently returned expats and their spouses to get that sort of information. Beyond that, social media such as www.linkedin.com (see their global expat network) and www.expatsfinder.com are excellent sources of information, suggestions, support, and employment leads and connections for expats or for those considering a job abroad. A typical link you'll find at those sites is <https://www.linkedin.com/company/aramco-expats>.⁷⁰

adaptability screening

A process that aims to assess the assignees' (and spouses') probable success in handling a foreign transfer.

ADAPTABILITY SCREENING Similarly, with adaptability important, **adaptability screening** should be part of the screening process. Employers often use psychologists for this. Adaptability screening aims to assess the assignee's (and spouse's) probable success in handling the foreign transfer, and to alert them to issues (such as the impact on children) the move may involve. Here, companies often look for overseas candidates whose work and nonwork experience, education, and language skills already demonstrate living and working with different cultures. Even several summers traveling overseas or in foreign study programs can provide some basis to believe the candidate can adjust abroad.

TESTING Selection testing is useful for expat selection. In terms of personality, sociable, outgoing, conscientious people seem more likely to fit into new cultural settings.⁷¹ Similarly, expatriates who are more satisfied with their jobs abroad are more likely to adapt to the foreign assignment.⁷² Employers have used the Overseas Assignment Inventory (OAI) for many years to help assess, select, and develop expatriates for assignments abroad. The OAI is an online assessment that measures attributes crucial for successful adaptation to another culture.⁷³ As another example, expat success also requires an "international mind-set." Employers sometimes measure this with the "Global Mindset Inventory." Sample questions include "Knows how to work well with people from different parts of the world?" and "Enjoys exploring different parts of the world?"⁷⁴



Diversity Counts: Sending Women Managers Abroad

While women represent about half of the middle managers in U.S. companies, they represent only about 20% of managers sent abroad.⁷⁵ That's up from about 3% in the 1980s and 15% in 2005, but still low.⁷⁶ What accounts for this?

For one thing, misperceptions abound.⁷⁷ Line managers make these assignments, and many still probably assume that many women don't want to work abroad, or can't get their spouses to join them. However, a survey of female expatriates found enthusiasm. Why did they take their assignments? "Career development" was number one. Other reasons included "cultural understanding," "gaining experience," "doing something different," "personal goals," and "development learning."⁷⁸

Fear of cultural prejudices against women is another issue. In some cultures, women do have to follow different rules, for instance, in terms of attire. But as one expat said, "Even in the more harsh cultures, once they recognize that the women can do the job . . . it becomes less of a problem."⁷⁹ Safety is another concern. Employers tend to assume that women abroad are more likely to become crime victims. However, most surveyed women expats said that safety was no more an issue with women than it was with men.⁸⁰

Employers can take several steps to identify more women to assign abroad. For example, *formalize a process* for identifying employees who are willing to take assignments abroad. (At Gillette, for instance, supervisors use the performance review to identify the subordinate's career interests, including for assignments abroad.) *Train managers* to understand how their employees really feel about going abroad. And let successful female expats *help recruit* prospective female expats. And provide the expat's spouse with *employment assistance*.⁸¹ ■

LEGAL ISSUES There are various legal considerations when hiring for assignments abroad. For example, American equal employment opportunity laws, including Title VII, the ADEA, and the ADA, do affect qualified employees of U.S. employers doing business abroad, and foreign firms doing business in the United States or its territories. If equal employment opportunity laws conflict with the laws of the country in which the U.S. employer is operating, the laws of the local country generally take precedence.⁸² Government of India also mandates that employers hiring Indian (workers, nurses, domestic help etc. who require prior emigration clearance) for foreign jobs, should take help of a registered recruitment agent or obtain permit from the respective Indian mission abroad. For recruiting those not requiring emigration clearance, no special permission needs to be taken.⁸³

Avoiding Early Expatriate Returns

As a rule, "expatriates typically experience a gradual increase in work adjustment over time."⁸⁴ However, many expat assignments do fail, usually ending in an early unplanned return. Determining why the foreign assignment of a technically qualified expat failed is a cottage industry, but two factors loom large—the expat's personality, and family pressures.

As noted, a big part of the problem is how they're chosen in the first place. The tendency is to choose expats for their technical expertise and successful work achievements, but going abroad actually requires an expanded skill set (including adaptability). For example, as noted, sociable, outgoing, conscientious people seem more likely to fit into new cultural settings.⁸⁵ Studies

also suggest that it's not how different culturally the host country is from the person's home country that causes problems; it's the person's cross-cultural awareness and ability to adapt.⁸⁶ Some people are so culturally at ease that they do fine transferred anywhere; others will fail anywhere.⁸⁷ Careful selection is therefore in order.

Violations of what the expatriate sees as his or her psychological contract with the employer (the unwritten rules, agreements, and expectations governing the person's position abroad) may add to expatriate failure.⁸⁸ Similarly, expatriates who are more satisfied with their jobs abroad are more likely to adapt to the foreign assignment.⁸⁹ Therefore, realistic previews and then monitoring and communicating with the expat are important.

FAMILY PRESSURES However, it is usually not technical or personality factors but family and personal ones that undermine international assignees. One solution here is to provide *realistic previews* of what to expect abroad, careful *screening* (of both the prospective expat and his or her spouse), and improved *orientation* (discussions with recent returnees about the challenges of the foreign posting, for instance). Other suggestions include: *shorten the length* of the assignment;⁹⁰ and form “*global buddy*” programs, wherein local managers and their spouses assist new expatriates and their families with advice on things such as office politics, norms of behavior, and emergency medical care.⁹¹ Most expatriates and their families make use of medical care while abroad; their main concern isn't the cost, but rather the quality of health care.⁹² Providing site-specific orientation and language training are also valuable. The HR Tools feature sums up some suggestions.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

Some Practical Solutions to the Expatriate Challenge

Expat failure is expensive; managers can take several practical steps to improve the expat's success abroad.

- ✓ *Carefully select* expatriates, using expat-relevant criteria such as sociability and adaptability, rather than just technical skills.
- ✓ *Provide realistic previews* of what to expect abroad, *careful screening* (of both the prospective expat and his or her spouse), *improved orientation*, and *improved benefits* packages.
- ✓ *Shorten the length* of the assignment.
- ✓ *Form “global buddy”* programs. Here local managers assist new expatriate with advice on things such as office politics, norms of behavior, and where to receive emergency medical assistance.⁹³
- ✓ *Use executive coaches* to mentor and work with expatriate managers.⁹⁴ ■



LEARNING OBJECTIVE 17-4

Discuss some important issues to keep in mind in training, appraising, and compensating international employees.

Training and Maintaining Employees Abroad

Orienting and Training Employees on International Assignment

When it comes to the orientation and training required for expatriate success abroad, the practices of many U.S. employers reflect more talk than substance. Executives agree that international assignees do best when they receive the special training (in things like language and culture) that they require. Few provide it.

Many vendors offer packaged predeparture training. In general, the programs use on- and offline lectures, simulations, videos, and readings to prepare trainees. Their offerings illustrate the aim and content of such programs. One program aims to provide the trainee with (1) the basics of the new country's history, politics, business norms, education system, and demographics; (2) an understanding of how cultural values affect perceptions, values, and communications; and (3) examples of why moving to a new country can be difficult, and how to manage these challenges.⁹⁵ Others aim to build cross-cultural understanding, cross-cultural relationships and trust, and one's ability to communicate across cultures.⁹⁶ Global LT's "Living and Working Successfully" courses (<https://global-lt.com/>) "allow expatriate individuals and their families to gain a comprehensive understanding of the culture and business practices of their destination country. This course will help assignees more readily adjust to the work style and culture of an international assignment destination."⁹⁷

Some employers use returning managers to cultivate the global mind-sets of those departing. For example, Bosch holds regular seminars, where newly arrived returnees pass on their experience to managers and their families going abroad. Ministry of External Affairs, GOI requires employers to conduct mandatory pre-departure orientation to all recruits requiring emigration clearance before departure.⁹⁸ Similarly, Indian PSU banks have to provide mandatory training to officers before they are posted abroad.⁹⁹

ONGOING TRAINING Beyond such predeparture training, many firms provide continuing, in-country cross-cultural, and other training, particularly during the early stages of an overseas assignment.

For example, managers abroad (both expats and locals) continue to need traditional skills-oriented development. At many firms, including IBM, this includes rotating assignments, which help overseas managers grow professionally. IBM and other firms also have management development centers around the world where executives can hone their skills. And classroom programs (such as those at the London Business School or at INSEAD in France) provide overseas executives the educational opportunities (to acquire MBAs, for instance) that stateside colleagues have. PepsiCo encourages expatriates to engage in local social activities, such as table tennis tournaments in China, to help them become acclimated faster to local cultures.¹⁰⁰ Starbucks brings new management trainees from abroad to its Seattle, Washington, headquarters. This gives them "a taste of the West Coast lifestyle and the company's informal culture," as well as the technical knowledge required to manage their local stores.¹⁰¹

International development activities can have other, less-tangible benefits. For example, rotating their assignments helps managers form bonds with colleagues around the world. These can help the managers form the informal networks they need to make cross-border decisions more expeditiously.

Ethics and Codes of Conduct

Employers also need to make sure their employees abroad are adhering to their firm's ethics codes. However, exporting a firm's ethics rules requires more than giving employees abroad versions of a home country employee handbook. For example, few countries abroad adhere to "employment at will." Therefore, even handbooks that say, "We can fire employees at will" won't enable one to dismiss employees.¹⁰² Instead of exporting the employee handbook, some distribute and publicize a global code of conduct.

Often, the employer's main concern is establishing global standards for adhering to U.S. laws that have cross-border impacts. For example, IBM paid \$10 million to settle accusations that it had bribed Chinese and South Korean officials to get \$54 million in government contracts.¹⁰³ Global employers need global codes of conduct on things like discrimination, harassment, bribery, and Sarbanes–Oxley.

Performance Appraisal of International Managers

Given the high costs of expatriate failure, appraising the expat is important.¹⁰⁴ However, several things complicate appraising an expatriate's performance. Cultural differences are one. For example, a candid exchange is often the norm in France, but sometimes less so in Japan, where “face” is a concern. Furthermore, the “cultural distance” in terms of basic values and ways of doing things is much wider between some countries (such as between Japan and South Africa) than others (such as between the United States and England). With more people involved, such cultural differences can particularly distort the multisource or “360-degree” feedback one gets from peers and subordinates. Therefore, particularly for expatriate employees, “peer and subordinate ratings should be used for feedback related to development, and only supervisor ratings should be used to make HR administrative decisions such as performance appraisal and merit pay.”¹⁰⁵

Furthermore, who does the appraisal? Local managers must have some input, but, again, cultural differences may distort the appraisals. On the other hand, home-office managers may be so out of touch that they can't provide useful input. The sensible alternative is probably to let both have some input, but most companies probably emphasize the local manager's opinion. Some suggestions for improving the expatriate appraisal process include the following:

Many global employers bring their international managers together periodically for training seminars.



Cathy Yeulet/123RF

1. Adapt the performance criteria to the local job and situation.
2. Weigh the evaluation more toward the on-site manager's appraisal than toward the home-site manager's.
3. If the home-office manager does the appraisal, have him or her use a former expatriate from the same location abroad for advice.

Compensating Managers Abroad

As discussed in Chapter 11 (Compensation), the usual way to formulate expatriate pay is to equalize purchasing power across countries, a technique known as the *balance sheet* approach; about 78% of respondents in one survey used it.¹⁰⁶ The basic idea is that each expatriate should enjoy the same standard of living he or she would have at home. Some use a *localization* compensation policy—they pay the incoming expat a salary comparable to what a local person would earn, but supplement that with payments to let the expat maintain his or her home-country standard of living.¹⁰⁷ In any case, the bottom line is that the pay plan must be competitive enough to get the person to move.

In practice, this usually boils down to building the expatriate's total compensation around five or six separate components. Table 17-1 illustrates the balance sheet approach. In this case, the manager's annual earnings are \$160,000, and she faces a U.S. income tax rate of 28%. (Multiple-nation taxation can be a problem. Respondents often list "tax compliance" as the top challenge in sending employees abroad.)¹⁰⁸ Other costs are based on the index of living costs abroad published in the "U.S. Department of State Indexes of Living Costs Abroad, Quarters Allowances, and Hardship Differentials," available via the www.state.gov Web site.¹⁰⁹

To help the expatriate manage his or her home and foreign financial obligations, most employers use a *split pay* approach; they pay, say, half a person's

TABLE 17-1 The Balance Sheet Approach (Assumes U.S. Base Salary of \$160,000)

Annual Expense	Home Assignment Chicago, U.S.	Shanghai, China (U.S. \$ Equivalent)	Allowance
Housing and utilities	\$35,000	\$ 44,800	\$ 9,800
Goods and services	6,000	7,680	1,680
Taxes	44,800	57,344	12,544
Discretionary income	10,000	12,800	2,800
Total	\$95,800	\$122,624	\$26,824

actual pay in home-country currency and half in the local currency.¹¹⁰ For compensating *host country* nationals, employers tend to use a similar process to what they use at home, namely methods like job grading to create equitable pay plans adjusted for local market conditions.¹¹¹

Determining pay rates abroad isn't easy. Although there is a wealth of compensation survey data available such data are not as easy to come by overseas. Some multinationals therefore conduct their own local annual compensation surveys. For example, Kraft has conducted one of total compensation in Europe. However, most employers abroad do probably purchase one or more of various international salary surveys such as the Call Centre Remuneration Report/Australia, from Aon Hewitt, or the International Salary Survey Database/United Arab Emirates, from Executive Resources Limited.¹¹²

EXPATRIATE PAY EXAMPLE As one expat pay example, those working for the company CEMEX (a multinational building supplies company)

... get foreign service premium equal to a 10% increase in salary. Some get a hardship premium, depending on the country; it ranges from zero in a relatively comfortable posting to, for example, 30% in Bangladesh. We pay for their housing. We pay for their children's schooling up to college. There's home leave—a ticket back to their home country for the entire family once a year. There are language lessons for the spouse. And we gross up the pay of all expats, to take out the potential effects of local tax law. Say you have an executive earning \$150,000. This person would cost close to \$300,000 as an ex-pat.¹¹³

foreign service premiums

Financial payments over and above regular base pay, typically ranging between 10% and 30% of base pay.

hardship allowances

Payments that compensate expatriates for exceptionally hard living and working conditions at certain locations.

mobility premiums

Typically, lump-sum payments to reward employees for moving from one assignment to another.

INCENTIVES Employers use various incentives to encourage the employee to take the job abroad.¹¹⁴ For example, **foreign service premiums** are financial payments over and above regular base pay. These typically range from 10% to 30% of base pay, and appear as weekly or monthly salary supplements. **Hardship allowances** compensate expatriates for hard living and working conditions at certain foreign locations. (U.S. diplomats posted to Iraq receive about a 70% boost in base salary, among other incentives.)¹¹⁵ **Mobility premiums** are typically lump-sum payments to reward employees for moving from one assignment to another. In at least one way, executive compensation systems around the world are becoming more similar.¹¹⁶ Specifically, firms that offer overseas managers long-term incentives often use overall corporate performance criteria (like worldwide profits) when awarding incentive pay.

STEPS IN ESTABLISHING A GLOBAL PAY SYSTEM Balancing global consistency in compensation with local considerations starts with establishing a rewards program that makes sense in terms of the employer's strategic aims.¹¹⁷ Then the employer turns to more micro issues, such as, is how we're paying our employees abroad competitive?¹¹⁸ Steps to follow in creating a global pay system include these:¹¹⁹

- Step 1. Set strategy.** First, formulate longer-term strategic goals, for instance, in terms of improving productivity or boosting market share.
- Step 2. Identify crucial executive behaviors.** Next, list the actions you expect your executives to exhibit in order to achieve these strategic goals.
- Step 3. Global philosophy framework.** Next, step back and ask how you want *each pay component* (salary, bonus, incentives, and so forth) to contribute to prompting those executive actions.
- Step 4. Identify gaps.** Next, ask, "To what extent do our pay plans around the world now support these actions, and what changes if any are required?"
- Step 5. Systematize pay systems.** Next, create more consistent performance assessment practices, and establish consistent job requirements and performance expectations for similar jobs worldwide.

Step 6. Adapt pay policies. Finally, review your global pay policies (for setting salary levels, incentives, and so forth). Conduct surveys and analyses to assess local pay practices. Then fine-tune your global pay policies so they make sense for each location. Most important is that the policies comply with local laws and working conditions. Many Indian companies, specifically IT giants have been charged abroad for their pay related practices.¹²⁰

Union Relations Abroad

A manager flying either East or West from the United States would most likely land in a country with a much stronger union movement than in the United States. For example, Walmart successfully neutralized unionization attempts in the United States, but had to accept unions in China. And collective bargaining in Western Europe tends to be industry-wide, whereas in the United States it generally occurs at the company or plant level. Furthermore, union recognition in Europe is less restrictive than in the United States. For example, even if one union represents 80% of an employer's workers, another union in Europe can try to organize the other 20%. The bottom line, as noted earlier, is that managers should steel themselves to more vigorous collective bargaining negotiations abroad than they may be used to in the United States.

Safety Abroad

Employers need to address at least two matters in developing their international safety policies and practices.

First is the question of local worker safety. Recently, for instance, at a plant that manufactures iPhone casings not far from Shanghai China, workers reportedly were using noxious chemicals, sometimes without proper personal protective equipment.¹²¹ The United States has often taken the lead in occupational safety. However, other countries have such laws, with which all employers must comply. And in any case, it's hard to make a case for being less safety conscious or fair with workers abroad than you are with those at home.

The second matter is protecting their own international assignees and international travelers. (Legally, employers have a duty of care for protecting international assignees and their dependents and international business travelers.)¹²² For example, the threat of terrorism is prompting more employers to use special mobile safety tools to track and communicate with workers in real time.¹²³ Security firm International SOS provides its clients with online and smart phone tools. These let the client quickly notify employees traveling abroad of potential problems and what to do about them. Many employers use intelligence services for monitoring potential terrorist threats abroad. The head of one intelligence firm estimated such services cost around \$10,000 per year.¹²⁴ Some employers retain crisis management teams' services. They then call on these teams, for instance, when criminals kidnap one of their managers.

Hiring crisis teams and paying ransoms can be prohibitively expensive for all but the largest firms, so many employers buy kidnapping and ransom (K&R) insurance. Various events may trigger payments under such policies, including kidnapping/hostage situations, extortion, and detention.

■ IMPROVING PERFORMANCE: HR PRACTICES AROUND THE GLOBE

Business Travel

Keeping business travelers safe is a specialty all its own, but suggestions here include¹²⁵

- ✓ Provide expatriates with training about the place they're going to, so they're more oriented.
- ✓ Tell them not to draw attention to the fact they're Americans—by wearing T-shirts with American names, for instance.
- ✓ Have travelers arrive at airports as close to departure time as possible and wait in areas away from the main flow of traffic.
- ✓ Equip the expatriate's car and home with security systems.
- ✓ Tell employees to vary their departure and arrival times and take different routes.
- ✓ Keep employees current on crime and other problems by regularly checking, for example, the State Department's travel advisories and warnings at <http://travel.state.gov>.¹²⁶ Click on "Travel Alerts" and "Country Information."
- ✓ Advise employees to act confident at all times. Body language can attract perpetrators, and those who look like victims often become victimized.¹²⁷

Increased terrorism worldwide is causing more employers to use special travel safety tools to track and communicate with workers in real time.¹²⁸ For example, as noted, International SOS provides its clients with online and smart phone tools.

The HR Practices Around the Globe feature provides some practical suggestions.

Repatriation: Problems and Solutions

Too many employers waste the investment they've made in the employees they've sent abroad. For one thing, as we summarized in Table 17.1, a three-year assignment abroad for an employee with a salary of about \$160,000 may cost the employer \$800,000 or more, once extra living costs and taxes, (plus transportation and the person's regular benefits) are added up. Furthermore, losing the returnee also means losing the knowledge and experience he or she gained while abroad.¹²⁹ One survey several years ago found some employers lost 30% or more of their returning expats (although the attrition rates for most employers were much lower).¹³⁰

Given the investment, it obviously makes sense to keep such employees with the firm. Formal repatriation programs are useful. For instance, one survey found that of the employers with excessive expat returnee attrition rates, about two-thirds had no formal repatriation plans in place.¹³¹ About a quarter of employers don't even know if their recently returned expatriates quit within 12 months of returning.¹³²

STEPS IN REPATRIATION Successful repatriation programs have several characteristics. The best begin before the person is even sent abroad, by making sure he or she sees that the position is an integral part of a sensible career plan.¹³³ Discussions about the return should begin 6–12 or more months before the actual repatriation, and include discussions of the person's next career moves.¹³⁴ It is essential that the expatriate and his or her family not feel that the company has forgotten them.

As an example, one firm has a three-part repatriation program.¹³⁵

First, the firm matches the expat and his or her family with a psychologist trained in repatriation issues. The psychologist meets with the family

It is prudent to make sure that the employee always feels that he or she is still “in the loop” with what’s happening back at the home office.

TunedIn by Westend61/Shutterstock



before they go abroad. The psychologist discusses the challenges they will face abroad, assesses with them how well they think they will adapt to their new culture, and stays in touch with them throughout their assignment.

Second, the program ensures that the employee always feels that he or she is still “in the home-office loop.” For example, the expat gets a mentor, and travels back to the home office periodically for meetings.

Third, once it’s time for the expat employee and his or her family to return home, there’s a formal repatriation service. About six months before the overseas assignment ends, the psychologist and an HR representative meet with the expat and the family to start preparing them for return. For example, they help plan the employee’s next career move, help the person update his or her résumé, and begin putting the person in contact with supervisors back home.¹³⁶

At the end of the day, probably the simplest thing employers can do to retain the returnee is value the expat’s experience. As one returnee put it: “My company was, in my view, somewhat indifferent to my experience in China as evidenced by a lack of monetary reward, positive increase, or leverage to my career in any way.” Such feelings prompt former expats to look elsewhere.¹³⁷ Having a system that facilitates keeping track of employees as they move from position to position in a global organization is essential. One reason for returnees’ high attrition rates is that employers simply lose track of their returnees’ new skills and competencies.¹³⁸

In some cases, political and legal developments in the foreign countries may force home country nationals to return earlier than expected. The repatriates face significant readjustment challenges, both for securing employment and social adjustment. Indian IT companies in U.S. and other countries are currently facing such pressures. In Middle East, strong measures taken by governments are forcing foreign workers to return. Many Indian states, including Kerala has introduced schemes for retraining and rehabilitation of such returnees, with skill training and self employment opportunities.¹³⁹

LEARNING OBJECTIVE 17-5

Discuss similarities and differences in employee engagement around the globe.

Employee Engagement Guide for Managers

Engagement around the Globe

A survey of employee engagement around the globe provides some useful observations.¹⁴⁰

On average, the percent of engaged employees (including highly engaged and moderately engaged) was 70% in Latin America, 65% in North America, 61% in Asia/Pacific and Africa/Middle East, and 57% in Europe. The percentage of actively disengaged employees was highest in Europe (19%), lowest in Latin America (12%), and 15%–16% in North America, Asia/Pacific, and Africa/Middle East. The trend was for employee engagement (highly and moderately engaged) in all regions of the world to be converging around the current global average of about 61% of employees engaged. So, workers everywhere are becoming about equally engaged.

What are the top drivers of employee engagement around the globe? Career opportunities was the number-one key driver of employee engagement in all regions of the world, underscoring the universal importance of providing such opportunities. But beyond that point of agreement, the other key drivers varied by geographic area. For example, setting goals/managing performance was the number two key driver of employee engagement in North America but was much less important in Europe; the reputation of the organization was number two in Europe, pay was number two in Asia/Pacific, and recognition was number two in Latin America. So, the management actions that drive engagement vary somewhat by region.

One thing that did not seem to vary much was the global importance of employee engagement. The best-performing companies' employees were in the top quartile in employee engagement.

LEARNING OBJECTIVE 17-6

Explain with examples how to implement a global human resource management program.

Managing HR Locally: How to Put into Practice a Global HR System

As noted earlier, companies tend to evolve from running their international operations from home-based “international” units, to a “multinational” structure where subsidiaries abroad largely control themselves, to fully unified “global” companies with a unified management structure worldwide. Here, for instance, a car to be sold worldwide might be designed in France and manufactured in China and the U.S. with parts from Japan.¹⁴¹

Being “global” affects how the company organizes and manages its human resource management function. The global firm's emphasis will likely be on standardizing HR practices worldwide. In practice, technology—and particularly cloud computing—means most employers are moving to such unified global HR functions.¹⁴² For example, BP recently adopted the cloud-based “Workday HCM” (Human Capital Management) in order to support BP's global HR modernization strategy.¹⁴³ Among other things, adopting Workday HCM enabled BP to standardize its human capital management processes around the world, and gave employees worldwide access to information such as regarding their benefit status. It also provides top management with better insights into worldwide staffing levels and employee performance. And, it enabled BP's human resource management staff to transition from doing administrative HR tasks to supporting BP's strategic initiatives. The Strategic Context feature provides another example.¹⁴⁴

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Hyundai Capital

Hyundai Capital strategically is moving to what it calls a “Global One Company.” For example, it is unifying its organizational structure, products and services, and management practices worldwide.¹⁴⁵ To standardize its HR practices globally, it therefore recently moved its human resource management system from one that relied on separate HR systems in areas around the world, to a unified system based on Oracle HCM (Human Capital Management) Fusion Cloud. The new system, for example, enables employees around the globe to update their HR data and access improved training, onboarding, and other talent management tools. Oracle’s system also helps employers adapt to legal and labor relations differences around the world. For example, it handles multiple unique union and worker agreements in different countries, and helps management make local hiring and dismissal decisions consistent with local laws.

Yet, even with cloud-computing, one could reasonably ask, “With the large cross-cultural differences involved, what is the best way to institute a standardized human resource management system in our facilities around the world? A study conducted a number of years ago sheds some light on this. In brief, the study’s results show that employers may have to defer to local managers for fine-tuning human resource management policies.

In this study, the researchers interviewed human resource personnel from six global companies—Agilent, Dow, IBM, Motorola, Procter & Gamble, and Shell Oil Co.—as well as international human resources consultants.¹⁴⁶ The study’s overall conclusion was that employers who successfully implement global HR systems do so by applying several best practices. The basic idea is to *develop* systems that are *acceptable* to employees in units around the world, and ones that the employers can *implement* more effectively. Figure 17-2 summarizes this.

Developing a More Effective Global HR System

First, these employers engage in two best practices in *developing* their worldwide human resource policies and practices.

Form global HR networks. To head off resistance, human resource managers around the world should feel part of the firm’s global human resource management team. Treat the local human resource managers as equal partners. For instance, form global teams to develop the new human resources system. Create “an infrastructure of partners around the world that you use for support, for buy-in, for organization of local activities, and to help you better understand their own systems and their own challenges.”¹⁴⁷

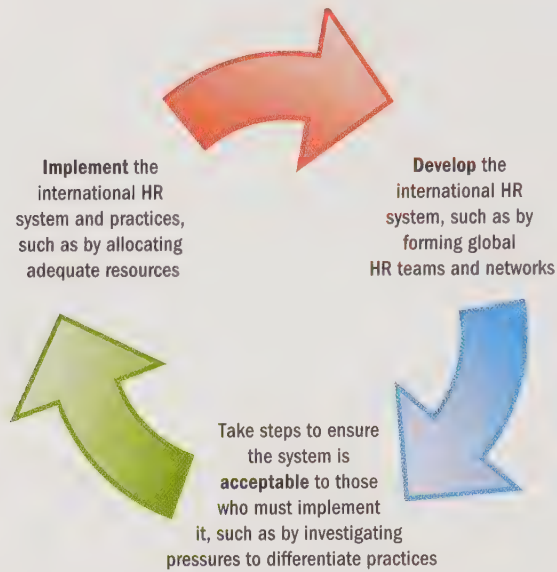
Remember that it’s more important to standardize ends and competencies than specific methods. For example, IBM uses a basically standardized recruitment and selection process worldwide. However, “details such as who conducts the interview (hiring manager vs. recruiter), or whether the prescreen is by phone or in person, differ by country.”¹⁴⁸

Making the Global HR System More Acceptable

Next, employers engage in three best practices so that the global human resource systems they develop will be *acceptable* to local managers around the world. These practices are

Remember that truly global organizations find it easier to install global systems. For example, their managers work on global teams, and the firms identify, recruit, and place employees globally. As one Shell manager

FIGURE 17-2 Best Practices for Creating Global HR Systems



said, “If you’re truly global, then you are hiring here [the United States] people who are going to immediately go and work in the Hague, and vice versa.”¹⁴⁹ Doing so makes it easier for managers everywhere to accept the wisdom of having a standardized human resource management system.

Investigate pressures to differentiate and determine their legitimacy. Local managers will insist, “You can’t do that here, because we are different culturally.” These “differences” aren’t usually persuasive. For example, when Dow wanted to implement an online recruitment and selection tool abroad, the hiring managers there said that their managers would not use it. After investigating the supposed cultural roadblocks, Dow successfully implemented the new system.¹⁵⁰

However, first carefully assess whether the local culture or other differences might in fact undermine the new system. Be knowledgeable about local legal issues, and be willing to differentiate where necessary.

Try to work within the context of a strong corporate culture. Companies that do so find it easier to obtain agreement among far-flung employees. For example, because of how P&G recruits, selects, trains, and rewards them, its managers have a strong sense of shared values. For instance, new recruits quickly learn to think in terms of “we” instead of “I.” They learn to value thoroughness, consistency, self-discipline, and a methodical approach. Having such global unanimity makes it easier to implement standardized human resource practices.

Implementing the Global HR System

Finally, two best practices helped ensure success in actually *implementing* the globally consistent human resource policies and practices.

“You can’t communicate enough.” “There’s a need for constant contact with the decision makers in each country, as well as the people who will be implementing and using the system.”¹⁵¹

Dedicate adequate resources. For example, don’t require the local human resource management offices to implement new job analysis procedures unless the head office provides adequate resources for these additional activities.

Chapter Review

Chapter Section Summaries

- 17-1. Dealing with **global human resource challenges as a manager** isn't easy. The employer faces an array of political, social, legal, and cultural differences among countries abroad. What works in one country may not work in another.
- 17-2. **The need for adapting human resource activities to intercountry differences** influences employers' HR processes. For example, citizens of different countries adhere to different values, and countries have differing economic systems as well as different legal, political, and labor relations systems.
- 17-3. **Staffing the global organization** is a major challenge. Companies may use expatriates, home-country nationals, locals, or third-country nationals. Ethnocentric companies tend to emphasize home-country attitudes, polycentric companies focus more on host-country employees, and global employers try to pick the best candidates from wherever they might be. Selecting employees to successfully work abroad depends on several things, most important on adaptability screening and on making sure that each employee's spouse and family get the realistic previews and support necessary to make the transition.
- 17-4. After selecting the employees to send abroad, attention turns to **training and maintaining your expatriate employees**.

In terms of predeparture preparation, training efforts ideally first cover the impact of cultural differences; then, the focus moves to getting participants to understand how attitudes influence behavior, providing factual

knowledge about the target country, and developing skills in areas like language and adjustment.

In compensating expatriates, most employers use the balance sheet approach; this focuses on four groups of expenses: income taxes, housing, goods and services, and discretionary expenses, and aims to ensure that the employee's standard of living abroad is about what it would have been at home.

With terrorism a threat, most employers today take protective measures, including buying kidnapping and ransom insurance.

Well-thought-out repatriation programs emphasize keeping employees in the loop as far as what's happening in their home offices, bringing them back to the office periodically, and providing formal repatriation services for the expatriate and his or her family to start preparing them for the return.

- 17-5. The worldwide trend is for employee engagement to converge around the current global average of about 61% of **employees engaged**. Career opportunities was the number-one key driver of employee engagement in all regions of the world, underscoring its universal importance.
- 17-6. With employers increasingly relying on local rather than expatriate employees, it's important for managers to understand **how to implement a global HR system**. The basic approach involves: (1) Develop a more effective global HR system; (2) Make the global HR system more acceptable; and (3) Implement the global system.

Discussion Questions

- 17-1. You are the president of a small business. What are some of the ways you expect "going international" will affect HR activities in your business?
- 17-2. What are some of the specific, uniquely international activities an international HR manager typically engages in?
- 17-3. What intercountry differences affect HRM? Give several examples of how each may affect HRM.

- 17-4. You are the HR manager of a firm that is about to send its first employees overseas to staff a new subsidiary. Your boss, the Managing Director, asks you why such assignments often fail, and what you plan to do to avoid such failures. How do you respond?
- 17-5. As an HR manager, what program would you establish to reduce repatriation problems of returning expatriates and their families?

Individual and Group Activities

- 17-6. Working individually or in groups, outline an expatriation and repatriation plan for your professor, whom your school is sending to Bulgaria to teach HR for the next 3 years.
- 17-7. Give three specific examples of multinational corporations in your area. Check on the Internet or with each firm to determine in what countries these firms have operations. Explain the nature of some of their operations, and summarize whatever you can find out about their international employee selection and training HR policies.
- 17-8. Choose three traits useful for selecting international assignees, and create a straightforward test to screen candidates for these traits.
- 17-9. Use a library or Internet source to determine the relative cost of living in five countries as of this year, and explain the implications of such differences for drafting a pay plan for managers being sent to each country.
- 17-10. An issue of *HR Magazine* contained an article titled “Aftershocks of War,” which said that soldiers returning to their jobs from Iraq would likely require HR’s assistance in coping with “delayed emotional trauma.” The term *delayed emotional trauma* refers to the personality changes such as anger, anxiety, or irritability that exposure to the traumatic events of war sometimes triggers in returning veterans. Assume you are the HR manager for the employer of John Smith, who is returning to work next week after 1 year in Iraq. Based on what you read in this chapter, what steps would you take to help smooth John’s reintegration into your workforce?

Experiential Exercise

A Taxing Problem for Expatriate Employees

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice identifying and analyzing some of the factors that influence expatriates’ pay.

Required Understanding: You should be thoroughly familiar with this chapter and with the Web site www.irs.gov.

How to Set Up the Exercise/Instructions: Divide the class into teams of four or five students. Each team member should read the following: One of the trickiest aspects of calculating expatriates’ pay relates to

the question of the expatriate’s U.S. federal income tax liabilities. Go to the Internal Revenue Service’s Web site, <https://www.irs.gov/individuals/international-taxpayers/taxpayers-living-abroad>. Your team is the expatriate-employee compensation task force for your company, and your firm is about to send several managers and engineers to, say, Japan, England, and Hong Kong. What information did you find on the site that will help your team formulate expat tax and compensation policies? Based on that, what are three important things your firm should keep in mind in formulating a compensation policy for employees you’re about to send abroad?

Application Case

"Boss, I Think We Have a Problem"

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Central Steel Door Corporation has been in business for about 20 years, successfully selling a line of steel industrial-grade doors. The company had gradually increased its presence from the New York City area, first into New England and then down the Atlantic Coast, then through the Midwest and West, and finally into Canada. The company's basic expansion strategy was always the same: Choose an area, open a distribution center, hire a regional sales manager, and then let that regional sales manager help staff the distribution center and hire local sales reps.

Unfortunately, the company's traditional success in finding sales help did not extend to its overseas operations, when Mel Fisher, president of Central Steel Door, decided to expand his company into Europe. He tried for 3 weeks to find a sales manager by advertising in the *International New York Times*, which is read by businesspeople in Europe and by American expatriates living and working in Europe. Although the ads placed in the *Times* also ran for about a month on the *Times's* Web site, Mr. Fisher so far has received only five applications. One came from a possibly viable candidate, whereas four came from candidates whom Mr. Fisher refers to as "lost souls"—people who seem to have spent most of their time traveling aimlessly from country to country, sipping espresso in sidewalk cafés. When asked what

he had done for the last 3 years, one told Mr. Fisher he'd been on a "walkabout."

Other aspects of his international HR activities have been equally problematic. Fisher alienated two of his U.S. sales managers by sending them to Europe to temporarily run the European operations, but neglecting to work out a compensation package that would cover their relatively high living expenses in Germany and Belgium. One ended up staying the better part of the year, and Mr. Fisher was rudely surprised to be informed by the Belgian government that his sales manager owed thousands of dollars in local taxes. The two managers had hired about 10 local people to staff each of the two distribution centers. However, the level of sales was disappointing, so Fisher decided to fire about half the distribution center employees. That's when he got an emergency phone call from his temporary sales manager in Germany: "I've just been told that all these employees should have had written employment agreements and that in any case we can't fire anyone without at least 1 year's notice, and the local authorities here are really up in arms. Boss, I think we have a problem."

Questions

- 17-11. Based on this chapter and the case incident, compile a list of 10 international HR mistakes Mr. Fisher has made so far.
- 17-12. How would you have gone about hiring a European sales manager? Why?
- 17-13. What would you do now if you were Mr. Fisher?

Continuing Case

Carter Cleaning Company

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Going Abroad

Jack Carter decided to take his first long vacation in years and go to Mexico for a month a few years ago. What he found surprised him: He spent time in Mexico City and was surprised at the dearth of cleaning stores, particularly considering the amount of air pollution. Traveling north, he passed through Juarez, Mexico, and was similarly surprised at the relatively few cleaning stores he found there. As he drove back into Texas, and back toward home, he began to think about whether it would be advisable to consider expanding his chain of stores into Mexico.

Aside from the possible economic benefits, he liked what he saw in Mexico. Starting a new business again also appealed to him. "I guess entrepreneurship is in my blood," is the way he put it.

As he drove home to have dinner with Jennifer, he began to formulate the questions he would have to ask before deciding whether to expand abroad.

Questions

- 17-14. Assuming they began by opening just one or two stores in Mexico, what do you see as the main HR-related challenges Jack and Jennifer would have to address?
- 17-15. How would you go about choosing a manager for a new Mexican store if you were Jack or Jennifer? For instance, would you hire someone locally or send someone from one of your existing stores? Why?
- 17-16. The cost of living in Mexico is substantially below that of where Carter is now located: How would you go about developing a pay plan for your new manager if you decided to send an expatriate to Mexico?
- 17-17. Present a detailed explanation of the factors you would look for in your candidate for expatriate manager to run the stores in Mexico.

Translating Strategy into HR Policies and Practices Case[§]

Improving Performance at the Hotel Paris

Managing Global Human Resources

The Hotel Paris's competitive strategy is, "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance by eliciting the required employee behaviors and competencies.

With hotels in 11 cities in Europe and the United States, Lisa knew that the company had to do a better job of managing its global human resources. For example, there were no formal means of identifying or training management employees for duties abroad (for those going either to the United States or to Europe). As another example, after spending upward of \$200,000 on sending a U.S. manager and her family abroad, they had to return her abruptly when the family complained of missing their friends back home. Lisa knew this was no way to run a multinational business. She turned her attention to developing the HR practices her company required to do business more effectively internationally.

On reviewing the data, it was apparent to Lisa and the CFO that the company's global human resource practices were probably inhibiting the Hotel Paris from being the world-class guest services company that it sought to be. For example, high-performing service and hotel firms had formal departure training programs for at least 90% of the employees they sent abroad; the Hotel Paris had no such programs. Similarly, with each city's hotel operating its own local hotel HR information system, there was no easy way for Lisa, the CFO, or the company's CEO to obtain reports on metrics like turnover, absences, or workers' compensation costs across all the different hotels. As the CFO summed it up, "If we can't measure how each hotel is doing in terms of human resource metrics like these, there's really no way to manage these activities, so there's no telling how much lost profits and wasted efforts are dragging down each hotel's performance." Lisa received approval to institute new global human resources programs and practices.

In instituting these new programs and practices, Lisa had several goals in mind. She wanted an integrated human resource information system (HRIS) that allowed her and the company's top managers to monitor and assess, on an ongoing basis, the company's global performance on strategically required employee

competencies and behaviors such as attendance, morale, commitment, and service-oriented behavior. To address this need, she received approval to contract with a company that integrated, via the Internet, the separate hotels' HR systems, including human resource and benefits administration, applicant tracking and résumé scanning, and employee morale surveys and performance appraisals.

She also contracted with an international HR training company to offer expatriate training for Hotel Paris employees and their families before they left for their foreign assignments, and to provide short-term support after they arrived. That training company also helped create a series of weeklong "Managers' Seminars." Held once every 6 months at a different hotel in a different city, these gave selected managers from throughout the Hotel Paris system an opportunity to meet and to learn more about the numerous new HR programs and practices that Lisa and her team had been instituting for the purpose of supporting the company's strategic aims. With the help of their compensation specialist, Lisa and her team also instituted a new incentive program for each of the company's local managers, to focus their attention more fully on the company's service-oriented strategic aims. By the end of the year, the Hotel Paris's performance on metrics such as percent of expatriates receiving predeparture screening, training, and counseling were at or above those of high-performing similar companies. She and the CFO believed, rightly, that they had begun to get their global HR system under control.

Questions

- 17-18. Provide a one-page summary of what individual hotel managers should know in order to make it more likely incoming employees from abroad will adapt to their new surroundings.
- 17-19. In previous chapters of *Dessler Human Resource Management* you recommended various human resource practices the Hotel Paris should use. Choose one of these, and explain why you believe they could take this program abroad, and how you suggest they do so.
- 17-20. Choose one Hotel Paris human resource practice that you believe is essential to the company specifically for achieving its high-quality-service goal, and explain how you would implement that practice in the firm's various hotels worldwide.

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Key Terms

international human resource management (IHRM), 629
works councils, 632
codetermination, 632
expatriates (expats), 634

parent or home-country nationals, 634
third-country nationals, 634
locals, 634
ethnocentric, 635

polycentric, 635
global, 635
virtual teams, 637
adaptability screening, 638
foreign service premiums, 644

hardship allowances, 644
mobility premiums, 644

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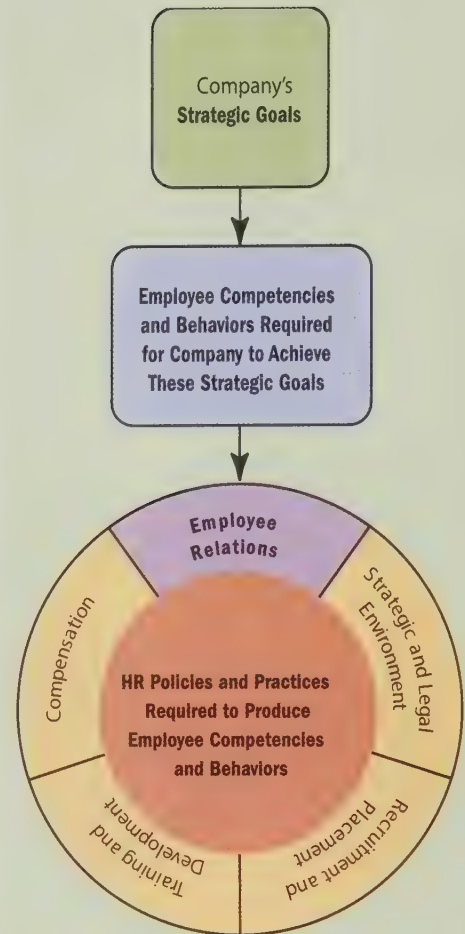


Managing Human Resources in Small and Entrepreneurial Firms

LEARNING OBJECTIVES

When you finish studying this chapter, you should be able to:

- 18-1** **Explain** why HRM is important to small businesses and how small business HRM is different from that in large businesses.
- 18-2** **Give** four examples of how entrepreneurs can use Internet and government tools to support the HR effort.
- 18-3** **List** five ways entrepreneurs can use their small size to improve their HR processes.
- 18-4** **Discuss** how you would choose and deal with a professional employer organization.
- 18-5** **Describe** how you would create a start-up human resource system for a new small business.



WHERE ARE WE NOW . . .

Small businesses have special human resource management needs. The main purpose of this chapter is to help you apply what you know about human resource management to running a small business. The main topics we'll address include **The Small Business Challenge**; **Using Internet, Government, and Other Tools to Support the HR Effort**; **Leveraging Small Size with Familiarity, Flexibility, Fairness, and Informality**; **Using Professional Employer Organizations**; and **Managing HR Systems, Procedures, and Paperwork**.

Kochi headquartered Popular Vehicles and Services Ltd (PVSL) is the third largest dealer of Maruti Suzuki India Ltd. (MSIL) in terms of sales volume. PVSL has won the highest dealer performance ratings awarded by MSIL for overall performance.¹ The HR practices of PVSL help in achieving business performance and customer satisfaction. Notable is the skill development initiatives that won internal recognitions. The HR department's tag line is "Popular HR: We care".² However, to meet the challenges of a competitive and degrowing market, effective strategies for hiring, training and compensation has to be introduced. We'll see what they did.

LEARNING OBJECTIVE 18-1

Explain why HRM is important to small businesses and how small business HRM is different from that in large businesses.

The Small Business Challenge

There's nothing small about *small business*. About half the people working in the United States today work for small firms.³ Small businesses as a group also account for most of the 650,000 or so new businesses created every year,⁴ as well as for most of America's business growth (small firms grow faster than big ones). And small firms create most of the new jobs in the United States.⁵ The Indian situation is also similar for MSME sector (Micro, Small and Medium Industries), which is the second largest globally, after China.⁶ The sector is estimated to provide employment to 120 million, and contributes to 6.11% of manufacturing GDP and 24.63% of service sector.⁷ Government of India considers MSME as a focus area for economic growth, and its central to the Make in India initiative.⁸

Statistically speaking, therefore, many (or most) people graduating from college, skill development center or even with basic education probably do or will work for MSME. Anyone interested in human resource management thus needs to understand how managing human resources in small firms differs from that in huge multinationals. or public sector firms.

How Small Business Human Resource Management Is Different

Managing human resources in small firms is different for four main reasons: *size, priorities, informality*, and the nature of the *entrepreneur*.

SIZE For one thing, it's unusual to find a business under 90 or so employees with a dedicated HR professional.⁹ *As a rule*, it's not until a company reaches about 100 employees that it can afford an HR specialist. Yet even five- or six-person retail shops recruit, select, train, and pay employees. So, it's usually the owner or his or her assistant that does the HR tasks; the accountant or clerk might handle payroll, for instance. It's also common for Indian MSMEs to take the help of relatives, who initially take care of functions like HR and accounts. As a result, SHRM found several years ago that even firms with under 100 employees often spend the equivalent of two or so people's time each year addressing human resource management issues.¹⁰ Those hours usually come out of the owner's long workday.

PRIORITIES At the same time, business realities drive many entrepreneurs (the men and women who provide the vision and "spark" that starts a new business) to focus more on non-HR issues. After studying small e-commerce firms in the United Kingdom, one researcher concluded that, as important as human resource management is, it just wasn't a high priority for these firms:

Given their shortage of resources in terms of time, money, people and expertise, a typical SME [*small- and medium-size enterprise*] manager's organizational imperatives are perceived elsewhere, in finance, production and marketing, with HR of diminished relative importance.¹¹

INFORMALITY One effect of this is that human resource management tends to be more informal in smaller firms. Thus, one study analyzed training practices in about 900 family and nonfamily small companies.¹² Training tended to be informal, with an emphasis on methods like coworker and supervisory on-the-job training. Studies among MSME companies in India also point to high levels of informality in HRM, and often it's ad-hoc. The relationship between

employer (owner) and employees is highly based on trust and mutual obligations. Any innovation or formalization of HR systems is influenced by the actions of key people, mostly the owners. However, Indian SMEs have started the HR formalization process.^{13, 14, 15}

Such informality isn't just due to a lack of resources, it's a "matter of survival." Entrepreneurs must react fast to changing competitive conditions. So, there's logic in keeping things like compensation policies flexible. The need for small businesses to adapt quickly often means handling matters like raises, appraisals, and time off "on an informal, reactive basis with a short time horizon."¹⁶

THE ENTREPRENEUR *Entrepreneurs* are people who create businesses under risky conditions, and starting new businesses is always risky. Entrepreneurs therefore tend to be dedicated and visionary, and somewhat controlling. Researchers believe that small firms' informality partly stems from entrepreneurs' tendency to control things. For example, "Owners tend to want to impose their stamp and personal management style on internal matters, including the primary goal and orientation of the firm, its working conditions and policies, and the style of internal and external communication and how this is communicated to the staff."¹⁷

IMPLICATIONS This combination of small size, priorities, informality, and entrepreneurial tendencies can easily translate into several problems for a small firm's human resource management practices.¹⁸

- First, inadequate human resource practices may put small business owners at *legal risk*. For example, often SMEs receive notices from government regulators for violating rules. The hired an executive-level HR professional to take care of such issuesa.
- Second, not having a dedicated HR person can *slow company decisions* and *overwhelm* its managers. After LRN Corp. U.S. eliminated its human resource department, tasks like hiring became convoluted as line managers tried to figure out what skills jobs required, and how to find and select the best people. Soon managers were pushing all these decisions up the ladder to the top manager.
- Third, without human resource information systems, paperwork is *time consuming*, and duplication may create *data entry errors*. Employee data (name, address, marital status, and so on) often appears on multiple human resource forms (medical enrollment forms, provident fund forms, and so on). Any personal data change then requires manually changing all forms. This is inefficient, and causes errors.
- Fourth, if the small business can't efficiently hire, train, appraise, and compensate employees, how will it compete with companies that can? It could be at a *competitive disadvantage*.



Diversity Counts: Necessity and the Entrepreneur

More men than women start new businesses, but according to one study, about 100 million women in 59 countries still started new businesses in one year.¹⁹ Interestingly, most of the women who did start businesses were not in the developed world. The most likely countries for women to start businesses were in Latin America and sub-Saharan Africa. This may be because in developed economies, women have more career options. In developing economies such as Ghana, necessity infuses a confidence that drives more women to make it on their own. ■

Why HRM Is Important to Small Businesses

A small software start-up experienced turmoil when social media postings from one employee accused another of harassment. The moral, says one expert, is that start-ups can't assume that all they need is an employee handbook; they also need a functioning HR system.²⁰

In fact, small firms with effective HR practices do better than those without them. For example, a study in the UK found a direct positive relationship between small companies' use of formal human resource practices and the companies' financial performance and labor productivity.²¹ An earlier study focused on 168 family-owned high-growth small and medium-size enterprises (SMEs). Similar studies have been reported in India also.²² The successful SMEs placed more emphasis on training and development, performance appraisal, recruitment packages, maintaining morale, and setting competitive compensation levels than did less successful ones.²³

For many small firms, effective human resource management is also required for getting and keeping big customers. For example, to comply with international ISO-9000 quality standards, or sourcing norms of global buyers like SA 8000 many large customers check that their small vendors follow the necessary HR standards.²⁴

We devote this chapter to methods small business managers can use to improve their human resource management practices, starting with Internet and government tools.

Using Internet, Government, and Other Tools to Support the HR Effort

No small business need cede the “HR advantage” to big competitors. Knowledgeable small business managers can level the terrain by using Internet-based HR resources, including free online resources from governments or Industry Associations like the CII. For example, the Small Business Administration (SBA) provides (under Manage Your Business) a *Hire and Manage Employees* page, with a list of HR items to address.²⁵ Other useful sites include the following.

Government Tools for Complying with Employment Laws

Complying with federal (and state and local) employment law is a thorny issue for entrepreneurs. For example, the entrepreneur needs to know, “Must I pay this person overtime?” and, “Must I report this injury?”

Online Employment Planning and Recruiting Tools

Online tools can make small business owners as effective as their large competitors at writing job descriptions and recruiting applicants. For example, as we saw in Chapter 4 (Job Analysis), <https://husys.com/blogs/> enables Indian SME business owners to create accurate job descriptions and job specifications quickly.

ONLINE RECRUITING Small business owners can also use the online recruiting tools in Chapter 5 (Recruiting). For example, it's easy to scour LinkedIn.com, and to post jobs on naukri.com, and on professional associations' job boards. Social media is another tool used effectively by MSMEs. Similarly, the best applicant tracking software does more than track job candidates.²⁶ They also

LEARNING OBJECTIVE 18-2

Give four examples of how entrepreneurs can use Internet and government tools to support the HR effort.

automatically post open jobs to job Web sites. Some, like Bullhorn (www.bullhorn.com/) post jobs to social media sites including LinkedIn, Twitter, and Facebook.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA²⁷

Many small businesses use social media to recruit applicants. For example, LinkedIn lets employers post job openings and facilitates business networking. One recruiter reportedly looks for LinkedIn members who have compelling summaries, excellent recommendations, and memberships in industry groups. On Twitter, recruiters see if a potential candidate has an appropriate username and photos. But also check Twitter for things like the person's status updates and retweets, to see (for instance) if he or she shares useful information. Small business recruiters should also focus on the social media that makes sense for them. For example, if you're looking for a Facebook marketing expert, look on Facebook. Or look for a photographer on Instagram. And on Facebook and LinkedIn, focus recruiting efforts on industry groups that make sense for your company. Check to see how your competitors use social media, and which communities they use.

Social media recruiting entails risks. For example, there is high chance that information provided in social profiles are not accurate or sometimes wrong. Recently, LinkedIn which has 55 million Indian users admitted presence fake profiles, and assured that Human centric AI and Machine Learning tools are helping it to identify the fake profiles.²⁸ And many agree that at the end of the day, social media recruiting can't substitute for in-person interactions. ■

Small Business Employee Selection Tools

Some tests are so easy to use they're particularly helpful for small firms. One is the *Wonderlic Personnel Test* (www.wonderlic.com/), which measures general mental ability. With questions somewhat similar to the Management Aptitude Test, it takes less than 15 minutes to administer. The tester reads the instructions, and keeps time as the candidate works through the 50 problems. The tester scores the test by totaling the number of correct answers. Comparing the person's score with the minimum scores recommended for various occupations shows whether he or she achieved the minimum score for the job in question.

The *Predictive Index* is another example. It measures work-related personality traits, drives, and behaviors—in particular, dominance, extroversion, patience, and blame avoidance. A template makes scoring simple. The Predictive Index program includes 15 standard benchmark personality patterns. For example, there is the “social interest” pattern, for a person who is generally unselfish, congenial, persuasive, patient, and unassuming. This person would be a good personnel interviewer, for instance.

Many vendors, including Wonderlic and Predictive Index, offer online applicant testing and screening services. Wonderlic's service (which costs about \$9,000 per year for a small firm) first provides job analyses for the employer's jobs. Wonderlic then provides a Web site the small business applicants can log into to take one or several selection tests. It will also help set up a testing procedure.

Some other small business recruiting and selection suggestions would include

Use online tests, for instance, to test an applicant's typing speed proficiency at Quickbooks, or even ability to sell over the phone.

Stuart Forster / Alamy Stock Photo



- **Don't forget the obvious.** Sometimes the easiest way to get good candidates is a "Help Wanted" sign on the door.
- **Keep it local, and in the industry.** Use online job boards that target a particular industry or city to minimize irrelevant applicants.²⁹ For example, naukri.com maintains city-specific job sites in over all states. Government of India has started a specialized portal for MSME jobs (<http://www.eex.dcmsme.gov.in/>), which has been integrated with the national career service portal. (ncs.gov.in) MSME Sampark is another portal that connects skilled job seekers and employers (<http://www.sampark.msme.gov.in/>).
- **Test online.** Use online tests, for instance, to test an applicant's proficiency at QuickBooks, or even at selling over the phone. Vendors include (as a small sample) IBM's Kenexa, eskill.com/, selectivehiring.com, and berkeassessment.com.³⁰
- **Poll your contacts.** Tap friends and employees for recommendations, and use social networking sites such as LinkedIn or other social groups. Existing employees are a source for talent recommendation, particularly for entry level and low/medium skilled jobs. One employer says, "I get people vouching for each applicant, so I don't have to spend hours sorting through résumés."³¹
- **Send a recording.** Several vendors have services that records online video interviews for reasonable expenses. It sends the candidate an e-mail invitation with a link. When he or she clicks the link, a video interviewer asks the company's prerecorded questions. Hiring managers can review the videos at their leisure.³²

The following feature shows how one company recruits employees.

■ IMPROVING PERFORMANCE: THE STRATEGIC CONTEXT

Everlane

Everlane's HQd in San Fransico U.S., and 40th ranked among World's most innovative companies³³ strategy builds its brand around ethical manufacturing and transparency. For example, ethical manufacturing meant they spent months finding a factory to make their new jeans in Vietnam, choosing it because it recycles 98% of the water used in denim manufacturing. Everlane's Web site lists the material and labor costs of each item they sell.³⁴

A strategy like that requires recruitment, selection, and compensation practices that fit, so when Everlane decided to emphasize transparency in its hiring no one was surprised. For example, they recently started recruiting job candidates by having them submit 60- to 90-second Snapchat stories, to show why they're a good candidate for Everlane. The idea is to create the story, tweet Everlane your snap code, and save the story before 24 hours run out, and mail it to Everlane.

A big reason they use social media to recruit is that it's likely to attract people who are already following Everlane. It seems to be working. For example, candidates are sending those Snapchat stories, taking them step-by-step through their presentations. That way, Everlane is getting applications from already engaged prospective employees for whom the company's goals resonate. Similarly, Everlane's career Web site page addresses itself to "rule breakers, questioners, and straight A students who skipped out of class." The site's also forthright in laying out Everlane's basic values, such as "everyone can, and should, make a difference," and "the ethical choice is the right one."

Small Business Training Tools

Small companies can't compete with the training resources of giants like Google. However, as explained in Chapter 7 (Training), online training can provide employee training that used to be beyond most small employers' reach. Online sources (see Chapter 7) range from private vendors such as Husys (www.husys.com) to the National Employer Associations like CII, FICCI and Employers Federation of India. Local management associations like Ahmedabad Management Association, Kerala Management Association, etc., regularly organize training programs. Government of India sponsored MSME training (<https://msmetraining.gov.in/ATI/home.aspx>) supports training in entrepreneurship and management to aspiring MSME promoters. Online learning platforms (<http://www.msmetoolroomkolkata.com/e-learning/>) make it easy for a company's employees to access off-the-shelf and customized online learning courses and programs.

Employment Appraisal and Compensation Online Tools

Small employers have easy access to computerized and online appraisal and compensation services. For example, ApHusys (<https://aphusys.com/#why>) lets managers formalize the employee's goals and then assess progress toward meeting those goals. The cloud based software application, targeted at Indian SMEs is available for all HR functions or specific functions. The eAppraisal system from Halogen Software³⁵ is another example. SAP Success Factors (www.successfactors.com/en_us.html) provides particularly effective performance management assistance. It facilitates assigning and monitoring goals, helps management provide feedback to employees, and makes it easy to review goal attainment as part of performance appraisal.³⁶

Similarly, lack of easy access to high-priced salary surveys once made it difficult for small businesses to adjust their pay scales. Today, sites like www.paycheck.in and www.Glassdoor.com make it easy to determine local and national pay rates.

Employment Safety and Health Tools

Average injury rates for small businesses are somewhat lower than in big companies.³⁷ However, most people work for small businesses, so that's still a huge number of total accidents. Small business managers should have a command of the tools and techniques in Chapter 16 (Safety). Different agencies and service providers offer support for Safety and Health in MSMEs. For example, FSDMI, in collaboration with GOI offers MSME focused training programs in fire and safety (<http://fsdmi.ac.in/courses-offered.html>) SHEORG (Safety, Health and Environment Organization), a NGO provides support to Indian MSMEs in this area. The portal (<http://www.sheorg.com>) provides information about relevant statutes applicable to MSMEs.³⁸

LEARNING OBJECTIVE 18-3

List five ways entrepreneurs can use their small size to improve their HR processes.

Leveraging Small Size with Familiarity, Flexibility, Fairness, and Informality

Because small businesses need to capitalize on their strengths, it makes sense for them to capitalize on their smallness when dealing with employees. For example, smallness can mean more personal *familiarity* with each employee's strengths, needs, and family situation. And it can mean being *flexible* and *informal* in its human resource management policies and practices.³⁹

Simple, Informal Employee Selection Procedures

In addition to online recruitment and selection tools,⁴⁰ small business managers shouldn't forget simple, low-tech selection aids. For example, the Work Sampling Test we explained in Chapter 6 involves having the candidate show how he or she would actually do one of the job's tasks—such as a marketing candidate spending 30 minutes outlining an ad for a product. The accompanying HR Tools feature presents a more informal selection interview procedure the small business manager may find useful.



IMPROVING PERFORMANCE: HR TOOLS FOR LINE MANAGERS AND SMALL BUSINESSES

A Streamlined Interviewing Process⁴¹

The small business owner, pressed for time, may use the following practical, streamlined employment interview process.⁴² One way to do so is to focus on four basic required factors: knowledge and experience, motivation, intellectual capacity, and personality. To proceed this way, interviewing expert John Drake suggests asking the following questions:

- ✓ **Knowledge and experience.** What must the candidate know to perform the job? What experience is necessary to perform the job? For example, ask a combination of situational questions plus open-ended questions to probe the candidate's suitability for the job, such as, "How would you organize such a sales effort?" or "How would you design that kind of Web site?"

- ✓ **Motivation.** What should the person like doing to enjoy this job? Is there anything the person should not dislike? Are there any essential goals or aspirations the person should have? For example, probe such areas as the person's likes and dislikes (for each thing done, what he or she liked or disliked about it).
- ✓ **Intellectual capacity.** Are there any specific intellectual aptitudes required (mathematical, mechanical, and so on)? How complex are the problems the person must solve? What must a person be able to demonstrate intellectually? For example, ask questions that judge such things as complexity of tasks the person has performed, and grades in school.
- ✓ **Personality.** What are the critical personality qualities needed for success on the job (ability to withstand boredom, decisiveness, stability, and so on)? How must the job incumbent handle stress, pressure, and criticism? What kind of interpersonal behavior is required in the job? For example, probe by looking for self-defeating behaviors (aggressiveness, compulsive fidgeting, and so on) and by exploring the person's past interpersonal relationships, such as leading the work team on the last job. Is the candidate personable? Shy? Outgoing?

How to Organize the Interview

- ✓ Have a plan. Devise and use a plan to guide the interview. Significant areas to touch on include the candidate's:
 - ✓ Vocational/technical institution and college experiences
 - ✓ Work experience—summer, internships, part-time
 - ✓ Work experience—full-time (one by one)
 - ✓ Goals and ambitions
 - ✓ Reactions to the job you are interviewing for
 - ✓ Self-assessments (by the candidate of his or her strengths and weaknesses)
 - ✓ Military experiences
 - ✓ Present outside activities⁴³
- ✓ Follow your plan. Start with an open-ended question for each topic, such as "Could you tell me about what you did in educational institution?" Then probe for information about the person's knowledge and experience, motivation, intelligence, and personality.

Match the Candidate to the Job

You should now be able to draw conclusions about the person's knowledge and experience, motivation, intellectual capacity, and personality, and to summarize the candidate's strengths and limits. This should provide a rational basis for matching the candidate to the job—one based on the traits and aptitudes the job actually requires. ■

Flexibility in Training

Two things characterize training in small businesses. First, small businesses focus on what the training will do *for their bottom lines*, rather than how employees may benefit.⁴⁴ (Similarly, they focus management development on teaching specific firm-related skills, such as how to sell the firm's products).⁴⁵

Second, a study several years ago in Europe found that small firms were also *relatively informal* in how they trained employees.⁴⁶ This probably isn't surprising, since (as explained in Chapter 8), training experts estimate that on average about 70% of all training is in fact "informal."

ENCOURAGING INFORMAL TRAINING Given the importance of informal learning, small business managers should take steps to encourage and facilitate it.

Several things contribute to building an environment in which informal learning thrives. Informal learning occurs when employees *have something they need to learn*, are *motivated to learn it*, and are given *the opportunity to learn*.⁴⁷ Informal learning tends to take place as a *by-product of employees' other activities*, and so usually occurs during day-to-day conversations, networking, and through teamwork and mentoring.⁴⁸ (To paraphrase one expert, workers learn more over coffee than they do taking courses.)⁴⁹ The best informal learning also tends to be *goal directed*, as when a manager who needs to recruit an engineer asks LinkedIn group colleagues how to do so; informal learning is thus often *triggered by something at work* that motivates the employee to initiate an informal learning interaction.⁵⁰ And, informal learning occurs best where employees know that top *management encourages and supports* such learning.⁵¹

Given all this, the small business owner can do several things to encourage and facilitate informal learning. These include

- Make it clear that you encourage employees to learn on the job, particularly when they're faced with a work problem.⁵²
- Make high-quality content available. For example, while much on the Internet is free, sometimes the job-relevant content for your company requires a subscription; if so, provide such subscriptions.⁵³
- Encourage supervisors to provide informal learning through coaching.⁵⁴
- Offer to cover tuition for special classes.⁵⁵
- Identify online training opportunities.⁵⁶
- Encourage and facilitate (for instance, through a dedicated page on the company intranet) the sharing of best practices.⁵⁷
- Send employees to special seminars and meetings for learning and networking.⁵⁸
- Provide plenty of opportunities for informal learning at work, such as chalkboards at worksites and lunch areas.



Flexibility in Benefits and Rewards

The Family and Work Institute surveyed the benefits practices of about 1,000 small and large companies.⁵⁹ Not surprisingly, they found that large firms offer more *extensive* benefits packages than do smaller ones. For example, larger employers offered more wellness programs, and asked their employees to pay a smaller share of health premiums than did small firms, on average.

However, small firms offered more flexibility. For example, employees at small employers (50–99 employees) were more likely than large employers (1,000 or more employees) to (1) take time off during the workday to attend to important family or personal needs without loss of pay; (2) have control over when to take breaks; and (3) periodically change starting and quitting times within some range of hours.⁶⁰

Some small businesses also “discovered how to turn tiny into tight-knit, earning employees’ trust by keeping them in the loop on company news and financials, and their loyalty by providing frequent feedback on performance.”⁶¹ For example, ID Media, with 90 employees, gives all new employees a welcome breakfast on their first day.⁶²

Wards Furniture in Long Beach, California, further illustrates this. Many of its 17 employees have been with the firm for 10 to 20 years. Brad Ward, an owner, attributes this partly to his firm’s willingness to adapt to its workers’ needs. For example, workers can share job responsibilities and work part-time from home. As a result, Wards Furniture is a good example of using small size to create valuable work–life benefits such as extra time off, compressed workweeks, schedule flexibility, and recognition for employees. At Wards Furniture, workers can share job responsibilities and work part-time from home.

Here are other examples of what Wards and other small employers can offer:⁶³

- **Extra time off.** For example, Friday afternoons off in the summer.
- **Compressed workweeks.** For example, compressed summer workweeks.
- **Bonuses at critical times.** Small business owners are more likely to know what’s happening in their employees’ lives. Use this knowledge to provide special bonuses, for instance, if an employee has a new baby.
- **Flexibility.** For example, “If an employee is having a personal problem, help create a work schedule that allows the person to solve problems without feeling like they’re going to be in trouble.”⁶⁴
- **Sensitivity to employees’ strengths and weaknesses.** The small business owner should stay attuned to his or her employees’ strengths, weaknesses, and aspirations. For example, give them an opportunity to train for and move into the jobs they desire.
- **Help them better themselves.** For example, pay employees to take a class to help them develop their job skills.
- **Feed them.** Provide free meals occasionally, perhaps by taking your employees to lunch.
- **Make them feel like owners.** For example, give employees input into major decisions, let them work directly with clients, get them client feedback, share company performance data with them, and let them share in the company’s financial success.
- **Make sure they have what they need to do their jobs.** Having motivated employees is only half the challenge. Also ensure they have the necessary training, procedures, computers, and so on.
- **Constantly recognize a job well done.** Capitalize on your day-to-day interactions with employees to “never miss an opportunity to give your employees the recognition they deserve.”⁶⁵

Fairness and the Family Business

Most small businesses are “family businesses,” since the owner (and often some employees) are family members.

Being a non-family employee here isn’t easy. The tendency is to treat family and non-family employees differently. If so, as one writer puts it, “It’s a sure bet that their lower morale and simmering resentments are having a negative effect on your operations and sapping your profits.”⁶⁶ Differential

treatment of nonfamily versus family employees is so widespread that it is an area of small business research. Two experts suggest family business owners follow a four-step program to ensure fairness.⁶⁷

- First, the family *commits* to the idea that all employees, family and non-family, should be treated fairly and consistently.⁶⁸ Work hard to avoid “any appearance that family members are benefiting unfairly from the sacrifice of others.”⁶⁹ Avoid “any behavior that would lead people to the conclusion that they are demanding special treatment in terms of assignments or responsibilities.”⁷⁰
- Second, the family *communicates* their commitment that all employees are entitled to fair practices.⁷¹
- Third, before they sign on, all employees must know that they can “freely and safely” *discuss and report* perceived unfair decisions.⁷² Particularly inform management applicants as to whether they will have potential for promotion. Make the expectations clear, regarding matters such as the authority the person will have and can attain.⁷³
- Fourth, have a *committee* that meets monthly to correct any alleged unfair decision voiced by family or nonfamily employees.⁷⁴

LEARNING OBJECTIVE 18-4

Discuss how you would choose and deal with a professional employer organization.

Using Professional Employer Organizations

As we explained in Chapter 13 (Benefits), many small business owners—pressed for time and concerned about the legal pitfalls of personnel blunders—opt to outsource all or most of their human resource functions to vendors. These vendors go by the names *professional employer organizations* (PEOs), *human resource outsourcers* (HROs), or sometimes *employee or staff leasing firms*.

How Do PEOs Work?

PEOs range from specialized payroll companies to ones that handle all an employer’s human resource management needs.

In determining which personnel tasks to outsource, the small business manager has many choices. At a minimum, these firms take over the employer’s payroll tasks. Usually, however, PEOs shoulder most of the employer’s human resources chores. By transferring the client firm’s employees to the PEO’s payroll, PEOs become co-employers of record for the employer’s employees. The PEO can then fold the client’s employees into the PEO’s insurance and benefits program, usually at a lower cost.⁷⁵ The PEO usually handles employee-related activities such as recruiting, hiring (with client firms’ supervisors’ approvals), and payroll and taxes. International PEO companies like Paychex (www.paychex.com/) provide payroll, tax, and benefits processing but also handle recruiting and training. Oasis Outsourcing (www.oasisadvantage.com/) can handle the full human resource process for very small companies, ranging from recruitment through selection, training, appraisal, and compensation.

Most Indian PEOs focus on smaller employees, often those with under 100 employees (although some handle clients of 5,000 employees or more).⁷⁶ They typically charge fees of 2% to 4% of a company’s payroll; or fixed fee per employee, which may be few thousands. Most PEOs also have schemes where the employer can transfer the PEP employee to company roll, by paying a conversion fee.

Why Use a PEO?

Some small business owners turn to PEOs to avoid the sorts of personnel-related problems we itemized earlier in this chapter. These were: (1) inadequate human resource practices may put small business owners at *legal risk*; (2) not having a dedicated HR person can slow down company decision making and overwhelm its managers; (3) without human resource information systems, paperwork duplication is time consuming and creates *data entry errors*; and (4) if the small business can't efficiently hire, train, appraise, and compensate employees, it may find itself at a *competitive disadvantage*. PEOs like Team Lease allow employers to find and manage blue collar employees across India, and its portal allows candidates to apply in local language also.⁷⁷

INSURANCE AND BENEFITS However *insurance and benefits* are often the big PEO attraction. Getting health and other insurance is often a problem for smaller firms. That's where employee leasing comes in. The PEO absorbs the client firm's employees as its own. That often enables the PEO to offer larger benefits packages more cheaply than a small business could get on its own.



CAVEATS There are several potential downsides to PEOs. Many employers view their human resource management practices (like training new engineers) as strategic, and aren't inclined to turn them over to outsiders (let alone accept having outsiders be their employees' legal employer). Furthermore, the fact that your (former) employees get their health insurance through the PEO has cons as well as pros.⁷⁸ For example, if the PEO goes out of business, its small business clients may scramble to replace their insurance. And if the PEO decides to switch insurance plans, your own employees may not be pleased with the new health providers.

FIGURE 18-1 Guidelines for Finding and Working with PEOs

Source: Based on Robert Beck and J. Starkman, "How to Find a PEO That Will Get the Job Done," *National Underwriter* 110, no. 39 (October 16, 2006), pp. 39, 45; Lyle DeWitt, "Advantages of Human Resource Outsourcing," *The CPA Journal* 75, no. 6 (June 2005), p. 13; www.peo.com/dmn, accessed April 28, 2008; Layne Davlin, "Human Resource Solutions for the Franchisee," *Franchising World* 39, no. 10 (October 2007), p. 27; and see, for example, www.adp.com/solutions/employer-services/totalsource/what-is-a-peo.aspx, accessed September 24, 2015.

Employers should choose and manage the PEO relationship carefully. Guidelines for doing so include:

- *Conduct a needs analysis.* Know ahead of time exactly what human resource concerns your company wants to address.
- *Review the services* of all PEO firms you're considering. Determine which can meet all your requirements.
- *Determine if the PEO is accredited.* There is no rating system.
- Check the provider's bank, credit, insurance, and professional references.
- Understand how the *employee benefits will be funded*. Is it fully insured or partially self-funded? Who is the carrier? Confirm that employers will receive first-day coverage.
- See if under the contract the PEO assumes the *compliance liabilities in the applicable states*.
- *Review the service agreement carefully.* Are the respective parties' responsibilities and liabilities clear?
- Investigate how long the *PEO has been in business*.
- *Check out the prospective PEO's staff.* Do they seem to have the expertise to deliver on its promises?
- Ask, *how will the firm deliver its services?* In person? By phone? Via the Web?
- Ask about upfront fees and how these are determined.
- *Periodically get proof that payroll taxes and insurance premiums are being paid properly* and that any legal issues are handled correctly.

What Is the Alternative?

If it does not want to use a PEO, what should the small business do? Most owners simply handle it all themselves. Some retain HR-savvy consultants who provide, on an hourly basis, the knowledgeable assistance in job analysis, recruiting, selection, and other matters that the small business owner needs. The advent of new HR software that provides services including applicant tracking, automatic recruitment ad placement, online selection testing, and performance management, plus employee data management is another smart option.⁷⁹ The following section looks closer at such software systems.

LEARNING OBJECTIVE 18-5

Describe how you would create a start-up human resource system for a new small business.

Managing HR Systems, Procedures, and Paperwork

Introduction

Consider the paperwork required to run a five-person retail shop. Just to start with, recruiting and hiring an employee might require a help wanted advertising listing, an employment application, an interviewing checklist, various verifications—of education and immigration status, for instance—and a telephone reference checklist. You then might need an employment agreement, confidentiality and noncompetition agreements, and an employer indemnity agreement. To process the new employee you might need a background verification, a new employee checklist, and forms for withholding tax and to obtain new employee data. And to keep track of the employee once on board, you'd need—just to start—a personnel data sheet, daily and weekly time records, an hourly employee's weekly time sheet, and an expense report. Then come all the performance appraisal forms, a disciplinary notice, an employee orientation record, separation notice, and employment reference response.

In fact, this list barely scratches the surface of the policies, procedures, and paperwork you'll need to run the human resource management part of your business. Perhaps with just one or two employees you could track everything in your head, or just write a separate memo for each HR action, placing it in a folder for each worker. But with more employees, you'll need a human resource system comprised of standardized forms. Then as the company grows, you'll computerize various parts of the HR system—payroll, or appraising, for instance.

Basic Components of Manual HR Systems

Very small employers (say, with 10 employees or less) may start with a manual human resource management system. In practice, this generally means obtaining and organizing a set of standardized personnel forms covering each aspect of the HR process—recruitment, selection, training, appraisal, compensation, safety—as well as some means for organizing all this information for each of your employees.

OTHER SOURCES Numerous direct-mail catalog companies and consultancies also sell HR materials. Another source is HR egroups like CiteHR.com where members post sample formats or seeking help from members of local HR associations like NIPM, HRD Network, etc.

Automating Individual HR Tasks

As the small business grows, it becomes impractical to rely on manual HR systems. It is at this point that most small to medium-sized firms begin computerizing individual human resource management tasks.

HR in Action at the Hotel Paris

Lisa had managed to install several separate information systems, such as for performance appraisals. However, as she discussed one day over lunch with the CFO, these systems were not integrated. To see how she handled this, see the case on page 678 of this chapter.



Human Resource Information Systems (HRIS)

As the company grows, a more comprehensive and integrated system becomes advisable. We can define a Human Resource Information System (HRIS) as human resource software that unifies HR management processes such as applicant tracking, hiring, training, performance management, benefits administration, and payroll into one automated system.⁸⁰

As an example, ApHusys and ZingHR handles personnel tasks including *applicant tracking* (including automatically sending *recruitment* ads to job boards), *employee time off tracking*, *HR reporting* (in terms of detailed reports on employment levels, and so on), online employee *self on boarding*, and *performance management* in terms of tracking goals and helping managers appraise subordinates based on those goals.⁸¹ As with ApHusys, there are several benefits to be gained by installing an HRIS. The first is improved transaction processing.

Improved Transaction Processing

The day-to-day minutiae of maintaining and updating employee records take an enormous amount of time. Small businesses therefore first adopt HR software packages to manage their personal records. And, by interacting with the company's employee database, these packages also produce employment data-related trend graphs and reports on personnel metrics such as turnover and compensation costs.

Online Self-Processing

HR information systems also facilitate employee self-processing.

Improved Reporting Capability

By integrating numerous individual HR tasks (training records, appraisals, employee personal data, and so on), the HRIS improves HR's reporting capabilities. For example, reports might be available (company-wide and by department) for health-care cost per employee, pay and benefits as a percent of operating expense, cost per hire, report on training, volunteer turnover rates, turnover costs, time to fill jobs, and return on human capital invested (in terms of training and education fees, for instance).

HR System Integration

Because the HRIS's software components (record keeping, payroll, appraisal, and so forth) are integrated, they enable the employer to reengineer its HR function. For example, Oracle's PeopleSoft's HRIS⁸² electronically routes salary increases, transfers, and other e-forms through the organization to the proper managers for approval. As one person signs off,

it's routed to the next. If someone forgets to process a document, a smart agent issues reminders. The HRIS thus automates what might otherwise be a time-consuming manual process.

HRIS Vendors

Many firms today offer HRIS packages.

There are several practical considerations in choosing a software vendor.⁸³ For example, does the software provide *software-as-a-service* (SAaS) capability, or must it be kept and managed on the company's in-house servers? Does the package provide an intuitive user interface? Can you integrate it with your existing HR systems? And (particularly if it's stored in the cloud), security—mainly protecting personal data—is essential.



TRENDS SHAPING HR: DIGITAL AND SOCIAL MEDIA

HR on the Cloud

Most suppliers of human resource management systems, such as ADP, Kronos, Oracle, and SAP, offer cloud-based systems. Particularly for small business owners, the advantages of cloud systems are that the vendors can easily update them with the latest features—saving the small business owner much time and expense—and that the owner and employees can access the information anywhere they are.⁸⁴

BambooHR illustrates an HR system especially designed for small and medium-sized businesses (www.bamboohr.com). This system enables authorized managers and employees to securely and remotely access company information on matters like time off and personal information, and to produce reports and/or follow trends on the system's customizable dashboards. It was also designed to be integrated with compatible applications, so it can be integrated with the small business's existing payroll systems, applicant tracking systems, benefits enrollment systems, and performance review systems.⁸⁵

As another example, many employers outsource benefits administration to cloud-based services offered by firms like Zenefits. A new employee uses his or her laptop or smartphone to access the Zenefits Web site. He or she can then input personal information and sign documents via a touchscreen, and register for specific benefits.⁸⁶ ■

Chapter Review

Chapter Section Summaries

- 18-1. Many people reading this book will work for or own their own small businesses, so it's important to understand the **small business challenge**. Without effective human resource management, small business owners run the risk that they'll be at a competitive disadvantage or that without the necessary HR expertise they may commit mistakes that lead to litigation.
- 18-2. Being small, small businesses can particularly capitalize on freely available **Internet and government tools to support their HR efforts**.
- 18-3. Small businesses need to capitalize on their strengths, and in this case, it means capitalizing on **familiarity, flexibility, and informality**. For example, be flexible about extra time off, compressed workweeks, and job enrichment. They can also use relatively informal but still

effective employee selection procedures such as a work-sampling test. Informal training methods include online training opportunities, encouraging the sharing of best practices among associates, and sending employees to seminars. Because small businesses are often family businesses, it's important to treat non-family members fairly.

- 18-4. After reviewing all the challenges of managing human resources, many small business owners turn to **using professional employer organizations**. Also called *human resource outsourcers* or *employee* or *staff leasing firms*, these firms generally transfer the client firm's employees to the PEO's own

payroll and thus become the employer of record for the employer's employees.

- 18-5. Small business managers need to understand how their **HR systems, procedures, and paperwork** will evolve. At first, there may be a simple manual human resource management system, for instance, with employee records compiled on forms from office supply companies and maintained in manual files. The employer then may purchase one or more packaged systems for automating individual HR tasks, for instance, such as applicant tracking and performance appraisal. As companies grow, they will look to integrate the separate systems with a human resource information system.

Discussion Questions

- 18-1. How and why is HR in small businesses different than that in large firms?
- 18-2. Explain why HRM is important to small businesses.
- 18-3. Explain and give at least five examples of ways entrepreneurs can use small size—familiarity, flexibility, and informality—to improve their HR processes.
- 18-4. Describe with examples how you would create a start-up, paper-based human resource system for a new small business.

Individual and Group Activities

- 18-5. Form teams of five or six persons, each with at least one person who owns or has worked for a small business. Based on their experiences, make a list of the “inadequate-HR risks” the business endured, in terms of competitive disadvantage, lack of specialized HR expertise, workplace litigation, compensation laws compliance, and paperwork/data-entry errors.
- 18-6. You own a small business, and you are confused about which of your employees is eligible for overtime pay. The employees in question include your secretary, two accounting clerks, one engineer, and two inside salespeople. Individually or in groups of four or five students, use the Indian labor Law Sites and www.paycheck.in to determine who gets overtime pay.
- 18-7. You have about 32 employees working in your factory. Working individually or in teams of four or five students, find and create a list of five online sources you could use to provide training to them, at no cost to you or to them.
- 18-8. Appendices A and B at the end of this book (pages 681–687) list the knowledge someone studying for the HRCI (Appendix A) or SHRM (Appendix B) certification exam needs to have in each area of human resource management (such as in Strategic Management and Workforce Planning). In groups of several students, do four things: (1) review Appendix A and/or B; (2) identify the material in this chapter that relates to the Appendix A and/or B required knowledge lists; (3) write four multiple-choice exam questions on this material that you believe would be suitable for inclusion in the HRCI exam and/or the SHRM exam; and (4) if time permits, have someone from your team post your team's questions in front of the class, so that students in all teams can answer the exam questions created by the other teams.



Experiential Exercise

Building an HRIS

Written and copyrighted by Gary Dessler, PhD.

Purpose: The purpose of this exercise is to give you practice in creating a human resource management system (HRIS).

Required Understanding: You should be fully acquainted with the material in this chapter.

How to Set Up the Exercise/Instructions: Divide the class into teams of several students. Each team will need access to the Internet.

Assume that the owners of a small business come to you with the following problem. They have

a company with less than 40 employees. They have been taking care of all HR paperwork informally, mostly on slips of paper and with memos. They want you to supply them with a human resource management information system—how computerized it is will be up to you, but they can only afford a budget of ₹50,000 upfront (not counting your consulting), and then about ₹5,000 per year for maintenance. You know from your HR training that there are various sources of paper-based and online systems. Write a two-page proposal telling them exactly what your team would suggest, based on its accumulated existing knowledge, and from online research.

Application Case

Netflix Breaks the Rules⁸⁷

Written and copyrighted by Gary Dessler, PhD.

Why did Netflix survive as a start-up when the dot-com bubble burst in the late 1990s? Probably because, from the day he started Netflix, founder Reed Hastings believed in breaking the rules. His direct-to consumer mail and video streaming business model certainly helped Netflix to survive. But the firm's unorthodox human resource management practices helped the company to attract and keep the high producers who design the products that are the firm's lifeblood. Hastings knew that top Silicon Valley workers could choose where they worked, and high pay is pretty much standard throughout the Valley's industries. How to set oneself apart? Hastings and his start-up colleagues believed that a culture that balanced a flexible work environment with few constraints and high responsibility was the answer. They called the policy "Freedom and Responsibility."

Just how unorthodox are the Netflix HR practices? Consider this: As a Netflix professional you get unlimited vacations. One engineer takes 5-week vacations to Europe, because he likes (as he says) to take his time off in big chunks. (An HR officer must approve time off in excess of 30 days annually.) As a Netflix employee, your pay isn't tied to performance appraisals, or even to a compensation plan. Frequent market salary surveys and pay hikes keep everyone's pay aligned with Silicon Valley competitors'. Each employee decides whether to take his or her pay in cash or in Netflix stock. Options vest immediately. Netflix doesn't recruit much at college job fairs, instead hiring mostly highly experienced professionals. There's no training, professional development, or career planning at Netflix (except for legally required training, such as diversity training). You're in charge of your own career.

But with freedom like that comes responsibilities. The company expects its salaried employees to work hard—to "do the

jobs of three or four people," as one report put it. And Netflix doesn't have the "frat party" free-wheeling atmosphere that many dot-coms do. It's an adult environment. Netflix does not coddle underperformers. Yearly 360-degree performance reviews provide "direct and honest feedback." Those that aren't cutting it are quickly let go, but (whenever possible) amicably. Rather than the sorts of litigiousness that often characterize dismissals in other firms (having to prove the person was incompetent, for instance), Netflix writes a check. The company believes that a handsome severance payment helps maintain the person's dignity, makes it easier for supervisors to make tough calls with underperformers, and, of course, minimizes blowback from those it dismisses. It's more like a "no-fault divorce," as one observer put it.

Questions

In many respects, the Netflix HR strategy seems like a dream come true for small businesses. You don't need a pay plan; instead, you just update each person's pay every few months based on market surveys. You offer no training and development. And you don't track vacation time, more or less. If someone's not doing well, you just pay him or her to leave, with no hassles. Netflix seems to have hit upon its own version of "Netflix High-Performance Work Practices." Given that, answer the following questions (please be specific).

- 18-9. What (if anything) is it about Netflix that makes its HR practices work for it?
- 18-10. Would you suggest using similar practices in other businesses, such as, say, a new restaurant? Why?
- 18-11. List the criteria you would use for deciding whether another company is right for Netflix-type HR practices.
- 18-12. What argument would you make in response to the following: "Netflix just lucked out; they'd have done even better with conventional HR practices."

Continuing Case

Carter Cleaning Company

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Cleaning in Challenging Times

As the economic downturn worsened a few years ago, revenues at the Carter stores fell steeply. Many of their customers were simply out of work and didn't need (or couldn't afford) dry cleaning. The Carters actually found themselves giving away some free cleaning services. They started a new program wherein existing customers could get one suit or dress cleaned free each month if they needed it for a job interview.

In the midst of this downturn, the Carters knew they had to get their employment costs under control. The problem was that, realistically, there wasn't much room for cutting staffing in a store. Of course, if a store got very slow, they could double up by having a cleaner/spotter spend some time pressing, or having the manager displace the counter person. But if sales only fell 15% to 20% per store, there really wasn't much room for reducing

employee head count because each store never employed many people in the first place.

The question, therefore, naturally arose as to whether the Carters could cut their employment expenses without dismissing too many people. Jennifer Carter has several questions for you.

Questions

- 18-13. Assume that we don't want to terminate any of our employees. What work-scheduling-related changes could we make that would reduce our payrolls by, say, 20% per week but still keep all our employees on board?
- 18-14. We are currently handling most of our personnel-related activities, such as sign-ons, benefits administration, and appraisals, manually. What specific suggestions would you have for us in terms of using software systems to automate our HR processes?
- 18-15. Suggest at least five free Internet-based sources we could turn to for helping us to lower our total employment costs.

Translating Strategy into HR Policies and Practices Case[§]

Improving Performance at the Hotel Paris

The New HRIS

The Hotel Paris's competitive strategy is "To use superior guest service to differentiate the Hotel Paris properties, and to thereby increase the length of stay and return rate of guests, and thus boost revenues and profitability." HR manager Lisa Cruz must now formulate functional policies and activities that support this competitive strategy and boost performance by eliciting the required employee behaviors and competencies.

Challenging economic times in the past few years brought the drawbacks of the Hotel Paris's relatively small size into sharp relief. Large chains like Marriott had vast online reservations capabilities with huge centralized systems that easily and economically handled reservations requests from throughout the world. By comparison, the Hotel Paris still handled reservations much as hotels did 15 years ago, either with separate Web sites for each of their hotel locations, e-mail, or an 800 number.

Their human resource management information systems were similarly primitive. Lisa had managed to install several separate information systems, such as for performance appraisals. However, as she discussed one day over lunch with the CFO, the HR systems were not integrated. Therefore, if an employee changed his or her name, for instance, through marriage, people in Lisa's office had to execute all those name changes manually on all the various employee rosters and benefits plans.

This lack of integration was bad enough in boom times, but was worse as the economy soured. The CFO pointed out to her that the amount of money they were spending on human resource management administration was about 30% higher than it was at larger chains such as Marriott. He understood that large size brings economies of scale. But he believed there had to

be something they could do to reduce the cost of administering human resource management.

Lisa's solution was to get the CFO's approval to have several software consulting firms including IBM, Accenture, and Oracle provide proposals for how to integrate the hotel's HR information systems. After getting the CFO's and CEO's approval, they contracted with one vendor and installed the system.

Questions

- 18-16. Using any benchmark data that you can find, including information from this book, what are some benchmark metrics that Lisa could be using to assess the efficiency of her human resource management operations? To what extent does the Hotel Paris's quality service orientation enter into how Lisa's metrics should compare?
- 18-17. Throughout this book, we've discussed various specific examples of how human resource management departments have been reducing the cost of delivering their services. Keeping in mind the Hotel Paris's quality service orientation, please list and explain with examples how Lisa Cruz could use at least five of these.
- 18-18. Focusing only on human resource information systems for a moment, what sorts of systems would you suggest Lisa consider recommending for the Hotel Paris? Why?
- 18-19. Explain with detailed examples how Lisa can use free online and governmental sources to accomplish at least part of what you propose in your previous answers.
- 18-20. Give three examples of fee-based online tools you suggest Lisa use.
- 18-21. Based on what you read in this chapter of Dessler, *Human Resource Management*, do you suggest Lisa use a PEO? Why?

[§] Written and copyrighted by Gary Dessler, PhD.

Endnotes

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APPENDIX A

HRCI's PHR[®] and SPHR[®] Certification Body of Knowledge

ABOUT THE HR CERTIFICATION INSTITUTE PHR AND SPHR BODY OF KNOWLEDGE

The HRCI PHR (Professional in Human Resources) and SPHR (Senior Professional in Human Resources) exams are created using the Institute's PHR and SPHR Body of Knowledge, which outlines the responsibilities of, and knowledge needed by, today's HR professional. The PHR and SPHR Body of Knowledge is updated periodically to ensure it is consistent with current practices in the HR field. All questions appearing on the exams are linked to the Body of Knowledge's responsibility and knowledge statements. The HRCI organizes its PHR and SPHR Body of Knowledge into six functional areas (such as Functional Area 01: Business Management and Strategy), each listing various responsibilities and knowledge statements. For brevity, we list just the required knowledge items here, alongside the corresponding chapters in this book that address each particular knowledge area. To see the entire Body of Knowledge (including responsibilities), please go to [certification-handbook at HRCI.org](http://certification-handbook.at.HRCI.org).

You'll find two numbers after each functional area heading. The first number is the percentage of the PHR exam that is about that topic. The second number is the percentage of the SPHR exam that is about that topic.

Functional Area 01: Business Management and Strategy (PHR: 11%, SPHR: 30%)

Developing, contributing to and supporting the organization's mission, vision, values, strategic goals and objectives; formulating policies; guiding and leading the change process; and evaluating organizational effectiveness as an organizational leader.

KNOWLEDGE OF

- 01 The organization's mission, vision, values, business goals, objectives, plans and processes
- 02 Legislative and regulatory processes
- 03 Strategic planning process, design, implementation and evaluation

ADDRESSED IN THIS BOOK IN CHAPTER(S):

1, 3

2, 11, 14, 15, 16, and Know Your
Employment Law features in Chapters
2–16

1, 3, strategic Hotel Paris cases in
Chapters 3–18 with in-chapter call-
outs, "strategic" chapter openers, and
Improving Performance: The Strategic
Context features in most chapters

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1, 3	04	Management functions, including planning, organizing, directing and controlling
12, 14	05	Corporate governance procedures and compliance (for example: Sarbanes–Oxley Act)
1, 3, 5	06	<i>*SPHR only</i> Due diligence processes (for example: M&A, divestitures)
1, 3, 5	07	<i>*SPHR only</i> Transition techniques for corporate restructuring, M&A offshoring and divestitures
	08	Elements of a cost-benefit analysis during the life cycle of the business (such as scenarios for growth, including expected, economic stressed and worst-case conditions) and the impact to net worth/earnings for short-, mid- and long-term horizons
3, 11, 14	09	Business concepts (for example: competitive advantage, organizational branding, business case development, corporate responsibility)
3, 14, 16, 18	10	Business processes (for example: operations, sales and marketing, data management)

ADDRESSED IN THIS BOOK IN CHAPTER(S):

2, 4, 5, 6, 7, and Know Your Employment Law features in Chapters 1–14
3, 4, 5, 6, and HR as a Profit Center features in Chapters 1–14
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3, 4, 5
2, 6, 7
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5, 10, 11, 12, 13, 14
5, 17, and HR Practices Around the Globe features in Chapters 4–17

Functional Area 02: Workforce Planning and Employment (PHR: 24%, SPHR: 17%)

Developing, implementing and evaluating sourcing, recruitment, hiring, orientation, succession planning, retention and organizational exit programs necessary to ensure a workforce's ability to achieve the organization's goals and objectives.

KNOWLEDGE OF

11	Applicable federal laws and regulations related to workforce planning and employment activities (for example: Title VII, ADA, EEOC Uniform Guidelines on Employee Selection Procedures, Immigration Reform and Control Act)
12	Methods to assess past and future staffing effectiveness (for example: costs per hire, selection ratios, adverse impact)
13	Recruitment sources (for example: employee referral, social networking/social media) for targeting passive, semi-active and active candidates
14	Recruitment strategies
15	Staffing alternatives (for example: outsourcing, job sharing, phased retirement)
16	Planning techniques (for example: succession planning, forecasting)
17	Reliability and validity of selection tests/tools/ methods
18	Use and interpretation of selection tests (for example: psychological/ personality, cognitive, motor/physical assessments, performance, assessment center)
19	Interviewing techniques (for example: behavioral, situational, panel)
20	Impact of compensation and benefits on recruitment and retention
21	<i>*SPHR only</i> International HR and implications of global workforce for workforce planning and employment

- 5, 10, 14
- 4, 5, 6, 7, 8, 9, 10
- 3, 8, 10, 18
- 5
- 15
- 22 Voluntary and involuntary terminations, downsizing, restructuring and outplacement strategies and practices
- 23 Internal workforce assessment techniques (for example: skills testing, skills inventory, workforce demographic analysis)
- 24 Employment policies, practices and procedures (for example: orientation, on-boarding and retention)
- 25 Employer marketing and branding techniques
- 26 Negotiation skills and techniques

Functional Area 03: Human Resource Development (PHR: 18%, SPHR: 19%)

Developing, implementing and evaluating activities and programs that address employee training and development, performance appraisal and talent and performance management to ensure that the knowledge, skills, abilities and performance of the workforce meet current and future organizational and individual needs.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

8 and in Know Your Employment Law features in this chapter and Chapters 2–18

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HR Practices Around the Globe features in most chapters and Chapter 17 (Global HR)

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KNOWLEDGE OF

- 27 Applicable federal laws and regulations related to HR development activities (for example: Title VII, ADA, Title 17 [Copyright law])
- 28 Career development and leadership development theories and applications (for example: succession planning, dual career ladders)
- 29 Organizational development (OD) theories and applications
- 30 Training program development techniques to create general and specialized training programs
- 31 Facilitation techniques, instructional methods and program delivery mechanisms
- 32 Task/process analysis
- 33 Performance appraisal methods (for example: instruments, ranking and rating scales)
- 34 Performance management methods (for example: goal setting, relationship to compensation, job placements/promotions)
- 35 **SPHR only* Applicable global issues (for example: international law, culture, local management approaches/practices, societal norms)
- 36 Techniques to assess training program effectiveness, including use of applicable metrics (for example: participant surveys, pre- and post-testing)
- 37 Mentoring and executive coaching

Functional Area 04: Compensation and Benefits (PHR: 19%, SPHR: 13%)

Developing/selecting, implementing/administering and evaluating compensation and benefits programs for all employee groups in order to support the organization's goals, objectives and values.

ADDRESSED IN THIS BOOK
IN CHAPTER(S):

2, 11, 12, 13, 15, and Know Your
Employment Law features

11, 12, 13

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11, 12

11, 12, 13

11, 12, 13, 14

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11, 12, 13, 17, and HR Around the
Globe features

11, 12, 13

ADDRESSED IN THIS BOOK
IN CHAPTER(S):

2, 10, 14, 15

14 (Building Positive Employee
Relations), 15

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10, 14, including Know Your Employ-
ment Law features

KNOWLEDGE OF

- 38 Applicable federal laws and regulations related to compensation, ben-
efits, and tax (for example: FLSA, ERISA, FMLA, USERRA)
- 39 Compensation and benefits strategies
- 40 Budgeting and accounting practices related to compensation and
benefits
- 41 Job evaluation methods
- 42 Job pricing and pay structures
- 43 External labor markets and/or economic factors
- 44 Pay programs (for example: variable, merit)
- 45 **SPHR only* Executive compensation methods
- 46 Noncash compensation methods (for example: equity programs, non-
cash rewards)
- 47 Benefits programs (for example: health and welfare, retirement,
Employee Assistance Programs [EAPs])
- 48 **SPHR only* International compensation laws and practices (for
example: expatriate compensation, entitlements, choice of law codes)
- 49 Fiduciary responsibilities related to compensation and benefits

Functional Area 05: Employee and Labor
Relations (PHR: 20%, SPHR: 14%)

Developing, implementing/administering and evaluating the workplace
in order to maintain relationships and working conditions that balance
employer/employee needs and rights in support of the organization's goals
and objectives.

KNOWLEDGE OF

- 50 Applicable federal laws affecting employment in union and nonunion
environments, such as laws regarding antidiscrimination policies, sex-
ual harassment, labor relations, and privacy (for example: WARN
Act, Title VII, NLRA)
- 51 Techniques and tools for facilitating positive employee relations (for
example: employee surveys, dispute/ conflict resolution, labor/man-
agement cooperative strategies)
- 52 Employee involvement strategies (for example: employee management
committees, self-directed work teams, staff meetings)
- 53 Individual employment rights issues and practices (for example:
employment at will, negligent hiring, defamation)
- 54 Workplace behavior issues/practices (for example: absenteeism and
performance improvement)
- 55 Unfair labor practices
- 56 The collective bargaining process, strategies and concepts (for exam-
ple: contract negotiation, costing and administration)
- 57 Legal disciplinary procedures

11, 12, 13, 14
 3, 14, 15
 10, 14, 15, including Know Your
 Employment Law features

- 58 Positive employee relations strategies and non-monetary rewards
- 59 Techniques for conducting unbiased investigations
- 60 Legal termination procedures

Functional Area 06: Risk Management (PHR: 8%, SPHR: 7%)

Developing, implementing/administering and evaluating programs, procedures and policies in order to provide a safe, secure working environment and to protect the organization from potential liability.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

2, 14, 16, including Know Your
 Employment Law features

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13, 14, 16

16, 18

14, 16, 18

3, 4, 5, 18, and Trends Shaping
 HR: Digital and Social Media and
 Improving Performance Through HRIS
 features in Chapters 3–16

KNOWLEDGE OF

- 61 Applicable federal laws and regulations related to workplace health, safety, security and privacy (for example: OSHA, Drug-Free Workplace Act, ADA, HIPAA, Sarbanes–Oxley Act)
- 62 Occupational injury and illness prevention (safety) and compensation programs
- 63 Investigation procedures of workplace safety, health and security enforcement agencies
- 64 Return to work procedures (for example: interactive dialog, job modification, accommodations)
- 65 Workplace safety risks (for example: trip hazards, blood-borne pathogens)
- 66 Workplace security risks (for example: theft, corporate espionage, sabotage)
- 67 Potential violent behavior and workplace violence conditions
- 68 General health and safety practices (for example: evacuation, hazard communication, ergonomic evaluations)
- 69 Organizational incident and emergency response plans
- 70 Internal investigation, monitoring and surveillance techniques
- 71 Employer/employee rights related to substance abuse
- 72 Business continuity and disaster recovery plans (for example: data storage and backup, alternative work locations, procedures)
- 73 Data integrity techniques and technology (for example: data sharing, password usage, social engineering)
- 74 Technology and applications (for example: social media, monitoring software, biometrics)
- 75 Financial management practices (for example: procurement policies, credit card policies and guidelines, expense policies)

CORE KNOWLEDGE

- 3, 8
- 13, 18
- 76 Needs assessment and analysis
- 77 Third-party or vendor selection, contract negotiation and management, including development of requests for proposals (RFPs)

9, 10, 14	78	Communication skills and strategies (for example: presentation, collaboration, sensitivity)
2, 4, 6, 9, 15, 16, 18, and Know Your Employment Law features in Chapters 2–16	79	Organizational documentation requirements to meet federal and state guidelines
8	80	Adult learning processes
8, 12, 13, 14	81	Motivation concepts and applications
8	82	Training techniques (for example: virtual, classroom, on-the-job)
	83	Leadership concepts and applications
2 and Diversity features in most chapters	84	Project management concepts and applications
14	85	Diversity concepts and applications (for example: generational, cultural competency, learning styles)
1, 14	86	Human relations concepts and applications (for example: emotional intelligence, organizational behavior)
3–18 plus Trends Shaping HR: Digital and Social Media and Improving Performance Through HRIS features in most chapters	87	Ethical and professional standards
	88	Technology to support HR activities (for example: HR Information Systems, employee self-service, E-learning, applicant tracking systems)
1, 3, and HR as a Profit Center features in most chapters	89	Qualitative and quantitative methods and tools for analysis, interpretation and decision-making purposes (for example: metrics and measurements, cost/benefit analysis, financial statement analysis)
8	90	Change management theory, methods and application
4	91	Job analysis and job description methods
4, 5, 18	92	Employee records management (for example: electronic/paper, retention, disposal)
3, 4, Improving Performance: The Strategic Context features in most chapters, a continuing strategic Hotel Paris case with in-chapter callouts in Chapters 3–16, and “strategic” chapter openers	93	Techniques for forecasting, planning and predicting the impact of HR activities and programs across functional areas
1, 4	94	Types of organizational structures (for example: matrix, hierarchy)
3	95	Environmental scanning concepts and applications (for example: Strengths, Weaknesses, Opportunities and Threats [SWOT], and Political, Economic, Social and Technological [PEST])
8, 14	96	Methods for assessing employee attitudes, opinions and satisfaction (for example: surveys, focus groups/panels)
	97	Budgeting, accounting and financial concepts
16	98	Risk-management techniques

APPENDIX B

About the Society for Human Resource Management (SHRM) Body of Competency & Knowledge® Model and Certification Exams

In 2011, SHRM began a program of research involving thousands of HR professionals to identify the critical competencies needed for success as an HR professional. This research led to the development of the SHRM Competency Model, which defines eight key behavioral competencies (*Ethical Practice, Leadership & Navigation, Business Acumen, Relationship Management, Communication, Consultation, Critical Evaluation, and Global & Cultural Effectiveness*) and one technical competency (*HR Expertise*). The SHRM Competency Model provides HR professionals with a comprehensive roadmap for developing the capabilities they need to advance their careers and improve their effectiveness in the workplace.

The SHRM Body of Competency & Knowledge® (SHRM BoCK®), which is based on the SHRM Competency Model outlines the content of SHRM's certification examinations, the SHRM Certified Professional (SHRM-CP®) exam for early-career and mid-level practitioners, and the SHRM Senior Certified Professional (SHRM-SCP®) exam for senior-level and executive practitioners.

In brief, the SHRM Body of Competency & Knowledge® model is based on a foundation of 15 “HR functional areas” such as HR Strategic Planning, and Talent Acquisition, which SHRM then groups into three main domains—People, Organization, and Workplace. The SHRM Body of Competency & Knowledge® model then layers, on top of these 15 functional knowledge areas, eight behavioral competencies, such as *Leadership & Navigation, Business Acumen, and Ethical Practice*.

The HR competencies and knowledge that are assessed on the SHRM-CP® and SHRM-SCP® exams are detailed in the SHRM BoCK®, which consists of the following two sections: Section 1: Behavioral Competencies, and Section 2: HR Expertise (HR Knowledge).

SECTION 1: BEHAVIORAL COMPETENCIES

Behavioral competencies describe the behaviors and attributes necessary for HR professionals to operate with a strategic mindset and perform effectively in the workplace. They facilitate the application of technical knowledge (i.e., *HR Expertise*), which may be defined as the principles, practices and functions of effective HR management (see Section 2). Successful HR professionals must understand the behavioral components of HR practice in addition to being in command of technical HR knowledge.

Organizing Framework of Behavioral Competency Clusters

CLUSTER	COMPETENCY	DEFINITION
Leadership	Leadership & Navigation	The knowledge, skills, abilities, and other characteristics (KSAOs) needed to navigate the organization and accomplish HR goals, to create a compelling vision and mission for HR that aligns with the strategic direction and culture of the organization, to lead and promote organizational change, to manage the implementation and execution of HR initiatives, and to promote the role of HR as a key business partner.
	Ethical Practice	The KSAOs needed to maintain high levels of personal and professional integrity, and to act as an ethical agent who promotes core values, integrity and accountability throughout the organization.
Interpersonal	Relationship Management	The KSAOs needed to create and maintain a network of professional contacts within and outside of the organization, to build and maintain relationships, to work as an effective member of a team, and to manage conflict while supporting the organization.
	Communication	The KSAOs needed to effectively craft and deliver concise and informative communications, to listen to and address the concerns of others, and to transfer and translate information from one level or unit of the organization to another.
	Global & Cultural Effectiveness	The KSAOs needed to value and consider the perspectives and backgrounds of all parties, to interact with others in a global context, and to promote a diverse and inclusive workplace.
Business	Business Acumen	The KSAOs needed to understand the organization's operations, functions and external environment, and to apply business tools and analyses that inform HR initiatives and operations consistent with the overall strategic direction of the organization.
	Consultation	The KSAOs needed to work with organizational stakeholders in evaluating business challenges and identifying opportunities for the design, implementation and evaluation of change initiatives, and to build ongoing support for HR solutions that meet the changing needs of customers and the business.
	Critical Evaluation	The KSAOs needed to collect and analyze qualitative and quantitative data, and to interpret and promote findings that evaluate HR initiatives and inform business decisions and recommendations.

SECTION 2: HR EXPERTISE (HR KNOWLEDGE)

Technical HR knowledge (i.e., *HR Expertise*) is defined as the principles, practices and functions of effective HR management. Its application is facilitated by behavioral competencies (see Section 1). Successful HR professionals must be in command of both technical HR knowledge and the behavioral components of HR practice. This approach, which is supported by SHRM research (see Introduction), emphasizes the critical and integrated roles played by technical HR knowledge (**what** you know) **and** by behavioral competencies (how you **apply** what you know) in contributing to effective HR practice.

Functional Area #1: HR Strategic Planning

Definition: *HR Strategic Planning* involves the activities necessary for developing, implementing and managing the strategic direction required to achieve organizational success and to create value for stakeholders.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

1, 3, strategic Hotel Paris cases in Chapters 3–18 with in-chapter call-outs, “strategic” chapter openers, and Improving Performance: The Strategic Context features in most chapters

1, 3, strategic Hotel Paris cases in Chapters 3–18 with in-chapter call-outs, “strategic” chapter openers, and Improving Performance: The Strategic Context features in most chapters

1, 3, strategic Hotel Paris cases in Chapters 3–18 with in-chapter call-outs, “strategic” chapter openers, and Improving Performance: The Strategic Context features in most chapters

1, 3, strategic Hotel Paris cases in Chapters 3–18 with in-chapter call-outs, “strategic” chapter openers, and Improving Performance: The Strategic Context features in most chapters

KEY CONCEPTS:

- Approaches to project management (e.g., traditional, Lean Six Sigma, agile, critical chain) and processes (e.g., initiating, planning and design, launching/executing, monitoring and controlling, closing).
- Concepts of systems thinking (e.g., related parts, input-process-output) and components of an organizational system (e.g., interdependence, necessity of feedback, differentiation of units).
- Organizational mission, vision and values, and their relation to strategic management and planning.
- Project planning, monitoring and reporting methods and tools (e.g., critical path analysis, Gantt charts, variance analysis, outcome monitoring).
- Project leadership, governance and structures (e.g., team roles, team management, work breakdown structures).
- Role of strategic management and planning in creating and sustaining competitive advantage.
- Strategic planning analysis frameworks (e.g., PESTLE analysis, SWOT analysis, industry analysis, scenario planning, growth-share matrix).
- Strategic planning process (e.g., formulation, goal-setting, implementation, evaluation).
- Systems theory and input-process-output models.

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
• Uses the perspective of systems thinking to understand how the organization operates. • Informs business decisions with knowledge of the strategy and goals of HR and the organization. • Develops and implements an individual action plan for executing HR’s strategy and goals. • Uses benchmarks, industry metrics and workforce trends to understand the organization’s market position and competitive advantage. • Informs HR leadership of new or overlooked opportunities to align HR’s strategy with the organization’s. • Provides HR leadership with timely and accurate information required for strategic decision making.	• Identifies the ways in which the HR function can support the organization’s strategy and goals. • Engages other business leaders in strategic analysis and planning. • Evaluates HR’s critical activities in terms of value added, impact and utility, using cost-benefit analysis, revenue, profit-and-loss estimates and other leading or lagging indicators. • Provides HR-focused expertise to other business leaders when formulating the organization’s strategy and goals. • Develops and implements HR strategy, vision and goals that align with and support the organization’s strategy and goals. • Ensures that HR strategy creates and sustains the organization’s competitive advantage.

Functional Area #2: Talent Acquisition

Definition: *Talent Acquisition* encompasses the activities involved in building and maintaining a workforce that meets the needs of the organization.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

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1, 8, 9, 10, 11, 14, 15, 16

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3, 4, 5, 6

KEY CONCEPTS:

- Approaches to employee onboarding.
- Approaches to sourcing (e.g., external talent pipelines).
- Employment categories (e.g., salaried/ hourly, contract, temporary, interns).
- Job analysis and identification of job requirements
- Job offer contingencies (e.g., background investigations, credit checks).
- Job offer negotiations (e.g., salary).
- Methods for creating and maintaining a positive employer value proposition (EVP) and employment brand.
- Methods for external and internal employee recruitment (e.g., job ads, career fairs).
- Methods for selection assessment (e.g., ability, job knowledge, non-cognitive tests, assessment centers, interviews).
- Talent acquisition metrics (e.g., cost per hire, time to fill).

PROFICIENCY INDICATORS	
For All HR Professionals	For Advanced HR Professionals
• Understands the talent needs of the organization or business unit. • Uses a wide variety of talent sources and recruiting methods to attract qualified applicants. • Uses technology (e.g., social media, applicant tracking software [ATS]) to support effective and efficient approaches to sourcing and recruiting employees. • Promotes and uses the EVP and employment brand for sourcing and recruiting applicants. • Uses the most appropriate hiring methods to best evaluate a candidate's technical skills, organizational fit and alignment with the organization's competencies needs. • Conducts appropriate pre-employment screening. • Implements effective onboarding and orientation programs for new employees. • Designs job descriptions to meet the organization's resource needs.	• Analyzes staffing levels and projections, to forecast workforce needs. • Develops strategies for sourcing and acquiring a workforce that meets the organization's needs. • Establishes an EVP and employment brand that supports recruitment of high-quality job applicants. • Designs and oversees effective strategies for sourcing, recruiting and evaluating qualified job candidates. • Designs and oversees employee onboarding and assimilation processes. • Designs and oversees valid and systematic programs for assessing the effectiveness of talent acquisition activities that meet the organization's needs.

ADDRESSED IN THIS BOOK IN SPECIAL EMPLOYEE ENGAGEMENT GUIDE FOR MANAGERS FEATURES IN CHAPTERS 3–16, AND IN THE FOLLOWING CHAPTERS:

1, 10, 11, 12, 13, 14, 15, 16

9, 10, 11, 12, 14
14

Functional Area #3: Employee Engagement & Retention

Definition: *Employee Engagement & Retention* refers to activities aimed at retaining high-performing talent, solidifying and improving the relationship between employees and the organization, creating a thriving and energized workforce, and developing effective strategies to address appropriate performance expectations from employees at all levels.

KEY CONCEPTS:

- Approaches to developing and maintaining a positive organizational culture (e.g., learning strategies, communication strategies, building values).
- Approaches to recognition (e.g., performance or service awards).
- Creation, administration, analysis and interpretation of employee attitude surveys.

Special engagement features in
Chapters 1–16, and Chapter 14

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Engagement features in Chapters 1–6,
and Chapter 14

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- Creation, planning and management of employee engagement activities.
- Employee lifecycle phases (e.g., recruitment, integration, development, departure).
- Employee retention concepts (e.g., causes of turnover) and best practices (e.g., realistic job previews [RJP]).
- Influence of culture on organizational outcomes (e.g., organizational performance, organizational learning, innovation).
- Interventions for improving job attitudes.
- Job attitude theories and basic principles (e.g., engagement, satisfaction, commitment).
- Job enrichment/enlargement principles and techniques.
- Key components of, and best practices associated with, performance management systems.
- Methods for assessing employee attitudes (e.g., focus groups, stay interviews, surveys).
- Principles of effective performance appraisal (e.g., goal setting, giving feedback).
- Retention and turnover metrics (e.g., voluntary turnover rate).
- Types of organizational cultures (e.g., authoritarian, mechanistic, participative, learning, high performance).
- Workplace flexibility programs (e.g., telecommuting, alternative work schedules).

PROFICIENCY INDICATORS

For All HR Professionals

- Designs, administers, analyzes and interprets surveys of employee attitudes (e.g., engagement, job satisfaction) and culture.
- Administers and supports HR and organizational programs designed to improve employee attitudes and culture (e.g., social events, telecommuting policies, recognition, job enlargement/enrichment, workplace flexibility).
- Identifies program opportunities to create more engaging or motivating jobs (e.g., job enrichment/enlargement).
- Monitors changes in turnover and retention metrics, and ensures that leadership is aware of such changes.
- Coaches supervisors on creating positive working relationships with their employees.
- Trains stakeholders on use of organization's performance management systems (e.g., how to enter performance goals, make ratings).
- Helps stakeholders understand the elements of satisfactory employee performance and performance management.
- Implements and monitors processes that measure effectiveness of performance management systems.

For Advanced HR Professionals

- In collaboration with other leaders, defines an organizational strategy to create an engaged workforce.
- Implements best practices for employee retention in HR programs, practices and policies (e.g., RJP, career development programs, employee socialization).
- Communicates to other senior leaders the results of surveys of employee attitudes and culture.
- Designs and oversees an action plan to address the findings of employee attitude surveys.
- Designs and oversees HR and organizational programs designed to improve employee attitudes (e.g., social events, telecommuting policies, recognition, job enlargement/enrichment, workplace flexibility).
- Holistically monitors the organization's metrics on employee attitudes, turnover and retention, and other information about employee engagement and retention.
- Designs and oversees best practices-based employee performance management systems that meet the organization's talent management needs.
- Designs and oversees processes to measure the effectiveness of performance management systems.

Functional Area #4: Learning & Development

Definition: *Learning & Development* activities enhance the knowledge, skills, abilities and other characteristics (KSAOs) and competencies of the workforce in order to meet the organization’s business needs.

KEY CONCEPTS:

- Approaches to coaching and mentoring (e.g., formal, informal mentorship programs).
- Career development.
- Developmental assessments (e.g., 360s).
- Knowledge-sharing techniques and facilitation.
- Learning and development approaches and techniques (e.g., e-learning, leader development).
- Learning and development program design and implementation (e.g., ADDIE model).
- Learning evaluation (e.g., Kirkpatrick 4-level model).
- Learning theories (e.g., adult learning theory).
- Needs analysis types (e.g., person, organizational, training, cost-benefit) and techniques (e.g., surveys, observations, interviews).
- Organizational analysis (e.g., performance analysis).
- Techniques for career development (e.g., career pathing, career mapping).

ADDRESSED IN THIS BOOK IN CHAPTER(S):

- 8, 9, 10
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- 3 and HR as a Profit Center features in many chapters
- 10

PROFICIENCY INDICATORS	
For All HR Professionals	For Advanced HR Professionals
• Uses best practices to evaluate data on gaps in competencies. • Creates individual development plans (IDPs) in collaboration with supervisors and employees. • Uses best practices to develop and deliver learning and development activities that close gaps in employees’ competencies and skills. • Uses all available resources (e.g., vendors) to develop and deliver effective learning and development programs. • Creates internal social networks to facilitate knowledge-sharing among employees. • Administers and supports programs to promote knowledge transfer.	• Designs and oversees efforts to collect data on critical gaps in competencies. • Provides guidance to identify and develop critical competencies that meet the organization’s talent needs. • Monitors the effectiveness of programs for emerging leaders and leadership development. • Creates long-term organizational strategies to develop talent. • Creates strategies to ensure the retention of organizational knowledge.

Functional Area #5: Total Rewards

Definition: *Total Rewards* refers to the design and implementation of compensation systems and benefit packages, which employers use to attract and retain employees.

KEY CONCEPTS:

- Approaches to gathering compensation- and benefits-related market and competitive intelligence (e.g., remuneration surveys).
- Basic accounting and financial knowledge for managing payroll (e.g., total compensation statements).
- Compensation philosophies.
- Compensation plans for common and special workforce groups (e.g., domestic, global/expatriate, executive, sales).
- Job evaluation for determining compensation and benefits.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

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- 11, 18
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- 11, 12, 13, 17
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11, 13	• Leave plans and approaches (e.g., vacation, holiday, sick, paid/unpaid leave).
13	• Other benefits (e.g., disability, unemployment insurance, employee assistance programs, family, flex, wellness programs).
11, 12, 13	• Other compensation (e.g., deferred compensation, direct/indirect compensation, stock options).
11, 12, 13	• Pay practices and issues (e.g., pay increases, base pay, pay levels, banding, variable pay).
11	• Remuneration and labor market data collection and interpretation.
11	• Remuneration data analysis (e.g., comparable worth, determining compensation, internal alignment, external competitiveness).
10, 13	• Retirement planning and benefits (e.g., pension plans).
11	• Total rewards metrics and benchmarks.

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
• Collects, compiles and interprets compensation and benefits data from various sources (e.g., remuneration surveys, labor market trends). • Implements appropriate pay, benefit, incentive, separation and severance systems and programs. • Complies with best practices for and laws and regulations governing compensation and benefits. • Differentiates between government-mandated, government-provided and voluntary benefit approaches. • Performs accurate job evaluations to determine appropriate compensation.	• Designs and oversees organizational compensation and benefits philosophies, strategies and plans that align with the organization's strategic direction and talent needs. • Designs and oversees executive compensation approaches that directly connect individual performance to organizational success. • Ensures the internal equity of compensation systems.

Functional Area #6: Structure of the HR Function

Definition: *Structure of the HR Function* encompasses the people, processes, theories and activities involved in the delivery of HR-related services that create and drive organizational effectiveness.

When necessary, HR professionals should be able to recognize opportunities to improve HR operations or structure in response to such factors as changes in the workforce, globalization and organizational restructuring.

KEY CONCEPTS:

- Approaches to HR operational integration (i.e., how HR structures work together).
- Approaches to HR function/service models (e.g., centralized vs. decentralized).
- Approaches to HR structural models (e.g., Center of Excellence [COE], shared services).
- Elements of the HR function (e.g., recruiting, talent management, compensation, benefits).
- HR-function metrics (e.g., HR staff per fulltime employee, customer satisfaction, key performance indicators, balanced scorecard).
- HR staff roles, responsibilities and functions (e.g., generalists, specialists, HR business partners).
- Outsourcing of HR functions.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

1, 4	• Approaches to HR operational integration (i.e., how HR structures work together).
1	• Approaches to HR function/service models (e.g., centralized vs. decentralized).
1	• Approaches to HR structural models (e.g., Center of Excellence [COE], shared services).
1, 4, 5, 6	• Elements of the HR function (e.g., recruiting, talent management, compensation, benefits).
1, 3	• HR-function metrics (e.g., HR staff per fulltime employee, customer satisfaction, key performance indicators, balanced scorecard).
1	• HR staff roles, responsibilities and functions (e.g., generalists, specialists, HR business partners).
1, 13, 18	• Outsourcing of HR functions.

PROFICIENCY INDICATORS	
For All HR Professionals	For Advanced HR Professionals
- Adapts work style to fit the organization's HR service model (e.g., centralized vs. decentralized), to ensure timely and consistent delivery of services to stakeholders. - Seeks feedback from stakeholders to identify opportunities for HR function improvements. - Acts as HR point-of-service contact for key stakeholders within a division or group. - Provides consultation on HR issues to all levels of leadership and management. - Coordinates with other HR functions to ensure timely and consistent delivery of services to stakeholders. - Ensures that outsourced and/or automated HR functions are integrated with other HR activities. - Analyzes and interprets key performance indicators to understand the effectiveness of the HR function.	- Designs and implements the appropriate HR service model for the organization (e.g., centralized vs. decentralized), to ensure efficient and effective delivery of services to stakeholders. - Creates long-term goals that address feedback from stakeholders identifying opportunities for HR function improvements. - Ensures that all elements of the HR function (e.g., recruiting, talent management, compensation and benefits, learning and development) are aligned and integrated, and provide timely and consistent delivery of services to stakeholders. - Identifies opportunities to improve HR operations by outsourcing work or implementing technologies that automate HR functions (e.g., time, payroll). - Designs and oversees programs to collect, analyze and interpret key performance indicators (e.g., balanced scorecard) to evaluate the effectiveness of HR activities in supporting organizational success.

Functional Area #7: Organizational Effectiveness & Development

Definition: *Organizational Effectiveness & Development* concerns the overall structure and functionality of the organization, and involves measurement of long- and short-term effectiveness and growth of people and processes, and implementation of necessary organizational change initiatives.

ADDRESSED IN THIS BOOK IN
CHAPTER(S):

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KEY CONCEPTS:

- Application of behavioral assessments (e.g., personality assessments).
- Intergroup dynamics (e.g., intergroup conflict).
- Intragroup dynamics (e.g., group formation, identity, cohesion, structure, influence on behavior).
- Organizational design structures and approaches (e.g., customer, functional, geographic, matrix, program).
- Organizational performance theories, structures, and approaches.

PROFICIENCY INDICATORS	
For All HR Professionals	For Advanced HR Professionals
- Ensures that key documents and systems (e.g., job postings and descriptions, performance management systems) accurately reflect workforce activities. - Supports change initiatives to increase the effectiveness of HR systems and processes. - Identifies areas in the organization's structures, processes and procedures that need change. - Provides recommendations for eliminating barriers to organizational effectiveness and development. - Collects and analyzes data on the value of HR initiatives to the organization.	- Aligns HR's strategy and activities with the organization's mission, vision, values and strategy. - Regularly monitors results against performance standards and goals in support of the organization's strategy. - Establishes measurable goals and objectives to create a culture of accountability. - Consults on, plans and designs organizational structures that align with the effective delivery of activities in support of the organization's strategy. - Assesses organizational needs to identify critical competencies for operational effectiveness. - Designs and oversees change initiatives to increase the effectiveness of HR systems and processes. - Ensures that HR initiatives demonstrate measurable value to the organization.

Functional Area #8: Workforce Management

Definition: *Workforce Management* refers to HR practices and initiatives that allow the organization to meet its talent needs (e.g., workforce planning, succession planning) and close critical gaps in competencies.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

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KEY CONCEPTS:

- Analysis of labor supply and demand.
- Approaches to restructuring (e.g., mergers and acquisitions, downsizing).
- Best practices and techniques for knowledge management, retention and transfer.
- Leadership development and planning (e.g., high-potential development programs).
- Succession planning programs and techniques.
- Techniques for organizational need-gap analysis (e.g., examination of HR records, interviews, focus groups).
- Workforce planning approaches, techniques and analyses (e.g., attrition, gap and solution, implementation and evaluation, reduction in force, supply and demand, workforce profile).

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
• Identifies gaps in workforce competencies and misalignment of staffing levels. • Implements approaches (e.g., buy or build) to ensure that appropriate workforce staffing levels and competencies exist to meet the organization's goals and objectives. • Plans short-term strategies to develop workforce competencies that support the organization's goals and objectives. • Administers and supports approaches (e.g., succession plans, high-potential development programs) to ensure that the organization's leadership needs are met. • Supports strategies for restructuring the organization's workforce (e.g., mergers and acquisitions, downsizing).	• Evaluates how the organization's strategy and goals align with future and current staffing levels and workforce competencies. • Develops strategies to maintain a robust workforce that has the talent to carry out the organization's current and future strategy and goals. • Coordinates with business leaders to create strategies (e.g., succession planning, leadership development, training) that address the organization's leadership needs. • Develops strategies for restructuring the organization's workforce (e.g., mergers and acquisitions, downsizing).

Functional Area #9: Employee & Labor Relations

Definition: *Employee & Labor Relations* refers to any dealings between the organization and its employees regarding the terms and conditions of employment.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

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KEY CONCEPTS:

- Approaches to retaliation prevention.
- Approaches to union-organization relations (e.g., collective bargaining, contract negotiation, contract administration process).
- Causes of and methods for preventing and addressing strikes, boycotts and work stoppages.
- Disciplinary procedures and approaches.
- Employment rights, standards and concepts (e.g., labor rights, living wage and fair wage concepts, standard workday), according to the International Labor Organization (ILO).

10, 14, 15	• Techniques for disciplinary investigations.
15	• Techniques for grievance and complaint resolution.
14	• Types and development of compliance and ethics programs (e.g., design, implementation, performance measures).
2, 14, 15	• Types and structures of organized labor (e.g., unions, works councils, trade union federations, other employee collectives).
15	• Types of alternative dispute resolution (ADR) (e.g., mediation, arbitration) and their advantages and disadvantages.
15	• Unfair labor practices, according to the ILO.
	• Unionization approaches, methods and management (e.g., acceptance, avoidance strategies).

PROFICIENCY INDICATORS	
For All HR Professionals	For Advanced HR Professionals
• Supports interactions with union and other employee representatives. • Supports the organization's interests in union-management activities. • Assists and supports the organization in the collective bargaining process. • Participates in or facilitates ADR processes (e.g., arbitration, mediation). • Makes recommendations for addressing other types of employee representation (e.g., governmental, legal). • Develops and implements workplace policies, handbooks and codes of conduct. • Provides guidance to employees on the terms and implications of their employment agreement and the organization's policies and procedures (e.g., employee handbook). • Consults managers on how to supervise difficult employees, handle disruptive behaviors and respond with the appropriate level of corrective action. • Conducts investigations into employee misconduct and suggests disciplinary action when necessary. • Manages employee grievance and discipline processes. • Resolves workplace labor disputes internally.	• Manages interactions and negotiations with union and other employee representatives (e.g., governmental, legal). • Serves as the primary representative of the organization's interests in union-management activities (e.g., negotiations, dispute resolution). • Manages the collective bargaining process. • Consults on and develops an effective organized labor strategy (e.g., avoidance, acceptance, adaptation) to achieve the organization's desired impact on itself and its workforce. • Educates employees, managers and leaders at all levels about the organization's labor strategy (e.g., avoidance, acceptance, adaptation and its impact on the achievement of goals and objectives). • Educates employees at all levels about changes in the organization's policies. • Coaches and counsels managers on how to operate within the parameters of organizational policy, labor agreements and employment agreements. • Oversees employee investigations and discipline.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

Trends Shaping HR: Digital and Social Media features in many chapters, 11

Trends Shaping HR: Digital and Social Media features in many chapters, 18

Trends Shaping HR: Digital and Social Media features in many chapters, 18

18 and Improving Performance Through HRIS features in many chapters

Functional Area #10: Technology Management

Definition: *Technology Management* involves the use of existing, new and emerging technologies to support the HR function, and the development and implementation of policies and procedures governing the use of technologies in the workplace.

KEY CONCEPTS:

- Approaches to electronic self-service for basic HR and people management functions (e.g., scheduling, timekeeping, benefit enrollment).
- Data and information management (e.g., data integrity, confidentiality, security, disclosure).
- HRIS capabilities and use.
- Policies and procedures for procurement.

18, Trends Shaping HR: Digital and Social Media features, and Improving Performance Through HRIS features in many chapters

5, 6, 18 and Improving Performance Through HRIS features in many chapters

- Policies and practices for technology and social media use (e.g., bring-your-own-device, websites, computers for personal activity).
- Software for recruiting and applicant tracking.

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
• Implements and uses technology solutions that support or facilitate delivery of effective HR services and storage of critical employee data. • Implements HRIS that integrate with and complement other enterprise information systems. • Develops and implements organizational standards and policies for maintaining confidentiality of employee data. • Uses technologies in a manner that protects workforce data. • Provides guidance to stakeholders on effective standards and policies for use of technologies in the workplace (e.g., social media, corporate and personal e-mail, internet messaging). • Coordinates and manages vendors implementing HR technology solutions. • Uses technologies that collect, access and analyze data and information, in order to understand business challenges and recommend evidence-based solutions.	• Evaluates and implements technology solutions that support the achievement of HR's strategic direction, vision and goals. • Evaluates and selects vendors to provide HR technology solutions. • Designs and implements technology systems that optimize and integrate HR functional areas. • Develops and implements technology-driven self-service approaches that enable managers and employees to perform basic people-related transactions (e.g., scheduling, timekeeping, compensation administration, benefit enrollment, information changes).

Functional Area #11: HR in the Global Context

Definition: *HR in the Global Context* focuses on the role of the HR professional in managing global workforces to achieve organizational objectives.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

17, and HR Around the Globe features in many chapters

17, and HR Around the Globe features in many chapters

KEY CONCEPTS:

- Best practices for international assignments (e.g., approaches and trends, effective performance, health and safety, compensation adjustments, employee repatriation, socialization).
- Requirements for moving work (e.g., co-sourcing, near-shoring, offshoring, on-shoring).

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
• Addresses global issues that influence day-to-day HR activities and makes recommendations for business solutions. • Maintains up-to-date knowledge of global political, economic, social, technological, legal and environmental (PESTLE) factors and their influence on the organization's workforce. • Administers and supports HR activities associated with a global workforce. • Implements and conducts audits of global HR practices. • Maintains knowledge of global HR trends and best practices. • Balances with local needs the organization's desire for standardization of HR programs, practices and policies. • Builds relationships with global stakeholders. • Manages the day-to-day activities associated with international (i.e., expatriate) assignments.	• Recognizes and responds to global issues that influence the organization's human capital strategy. • Consults with business leaders on global PESTLE factors and their influence on the organization's workforce. • Develops a comprehensive organizational strategy that addresses global workforce issues. • Consults with business leaders to define global competencies and embed them throughout the organization. • Identifies opportunities to achieve efficiencies and cost savings by moving work (e.g., offshoring, on-shoring, near-shoring). • Designs and oversees programs for international (i.e., expatriate) assignments that support the organization's human capital strategy.

Functional Area #12: Diversity & Inclusion

Definition: *Diversity & Inclusion* encompasses activities that create opportunities for the organization to leverage the unique backgrounds and characteristics of all employees to contribute to its success.

KEY CONCEPTS:

- Approaches to developing an inclusive workplace (e.g., best practices for diversity training).
- Approaches to managing a multi-generational/aging workforce.
- Demographic barriers to success (e.g., glass ceiling).
- Issues related to acceptance of diversity, including international differences (i.e., its acceptance in foreign nations or by employees from foreign nations).
- Workplace accommodations (e.g., disability, religious, transgender, veteran, active-duty military).

ADDRESSED IN THIS BOOK IN CHAPTER(S):

2, 5, 6, 7, Know Your Employment Law, and Diversity features

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2, 10, 17, and Diversity features

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PROFICIENCY INDICATORS	
For All HR Professionals	For Advanced HR Professionals
• Provides mentoring, training, guidance and coaching on cultural differences and practices to employees at all levels of the organization. • Consults with managers about distinctions between performance issues and cultural differences. • Develops and maintains knowledge of current trends and HR management best practices relating to D&I. • Contributes to development and maintenance of an organizational culture that values a diverse and inclusive workforce (e.g., conducts diversity training). • Identifies opportunities to enhance the fairness of organizational policies and procedures to all employees (e.g., removes demographic barriers to success). • Identifies and implements workplace accommodations. • Demonstrates support to internal and external stakeholders for the organization's D&I efforts.	• Incorporates D&I goals into all HR programs, practices and policies. • Advocates for incorporation of diversity goals into the organization's strategic plan. • Develops, implements and oversees, in conjunction with other business leaders, enterprise-wide programs, practices and policies that lead to a diverse workforce. • Designs and oversees HR programs, practices and policies supporting the development and maintenance of an organizational culture that values and promotes a diverse and inclusive workforce. • Designs and oversees HR programs, practices and policies that encourage employees to take advantage of opportunities for working with those who possess a diverse set of experiences and backgrounds. • Ensures that HR staff members have up-to-date knowledge of current trends and HR management best practices relating to D&I.

Functional Area #13: Risk Management

Definition: *Risk Management* is the identification, assessment and prioritization of risks, and the application of resources to minimize, monitor and control the probability and impact of those risks accordingly.

KEY CONCEPTS:

- Approaches to a drug-free workplace (e.g., testing, treatment of substance abuse).
- Approaches to qualitative and quantitative risk assessment (e.g., single loss expectancy, annualized loss expectancy).
- Business recovery and continuity-of-operations planning.
- Emergency and disaster (e.g., communicable disease, natural disaster, severe weather, terrorism) preparation and response planning.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

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16	Enterprise risk management processes and best practices (e.g., understand context, identify risks, analyze risks, prioritize risks) and risk treatments (e.g., avoidance, reduction, sharing, retention).
16, 18	Legal and regulatory compliance auditing and investigation techniques.
16	Quality assurance techniques and methods.
16	Risk sources (e.g., project failures) and types (e.g., hazard, financial, operational, strategic).
16, 18, and Improving Performance Through HRIS features	Security concerns (e.g., workplace violence, theft, fraud, corporate espionage, sabotage, kidnapping and ransom) and prevention.
16	Workplace/occupational injury and illness prevention (e.g., identification of hazards), investigations and accommodations.

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
- Monitors political, economic, social, technological, legal and environmental (PESTLE) factors and their influence on the organization. - Administers and supports HR programs, practices and policies that identify and/or mitigate workplace risk. - Implements crisis management, contingency and business continuity plans for the HR function and the organization. - Communicates critical information about risks (e.g., safety and security) and risk mitigation to employees at all levels. - Conducts due diligence investigations to evaluate risks and ensure legal and regulatory compliance. - Conducts workplace safety and health-related investigations (e.g., investigates workplace injuries). - Audits risk management activities and plans. - Maintains and ensures accurate reporting of internationally accepted workplace health and safety standards. - Incorporates into business cases the anticipated level of risk.	- Develops, implements and oversees formal and routinized processes for monitoring the organization's internal and external environments, to identify potential risks. - Monitors and evaluates macro-level labor market, industry and global trends for their impact on the organization. - Examines potential threats to the organization and guides senior leadership accordingly. - Develops, implements and oversees a comprehensive enterprise risk management strategy. - Develops crisis management, contingency, and business continuity plans for the HR function and the organization. - Communicates critical information about risks (e.g., safety and security) and risk mitigation to senior-level employees and external stakeholders. - Ensures that risk management activities and plans are audited and that the results inform risk mitigation strategies. - Oversees workplace safety- and health-related investigations and reporting. - Establishes strategies to address workplace retaliation and violence. - Leads after-action debriefs following significant workplace incidents (e.g., those involving employee safety and security). - Evaluates the anticipated level of risk associated with strategic opportunities.

Functional Area #14: Corporate Social Responsibility

Definition: *Corporate Social Responsibility* represents the organization's commitment to operate in an ethical and sustainable manner by engaging in activities that promote and support philanthropy, transparency, sustainability and ethically sound governance practices.

ADDRESSED IN THIS BOOK IN CHAPTER(S):

14	Approaches to community inclusion and engagement (e.g., representation on community boards, joint community projects, employee volunteerism).
14	Creating shared value (e.g., definition, best practices).
14	Developing CSR-related volunteer programs (e.g., recruiting and organizing participants).

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- Organizational philosophies and policies (e.g., development, integration into the organization).
 - Principles of corporate citizenship and governance.
 - Steps for corporate philanthropy and charitable giving (e.g., selecting recipients, types, donation amounts).

PROFICIENCY INDICATORS	
For All HR Professionals	For Advanced HR Professionals
• Acts as a professional role model and representative of the organization when interacting with the community. • Engages in community-based volunteer and philanthropic activities. • Identifies and promotes opportunities for HR and the organization to engage in CSR activities. • Helps staff at all levels understand the societal impact of business decisions and the role of the organization's CSR activities in improving the community. • Maintains transparency of HR programs, practices and policies, where appropriate. • Coaches managers to achieve an appropriate level of transparency in organizational practices and decisions. • Identifies opportunities for incorporation of environmentally responsible business practices, and shares them with leadership.	• Serves as a leader in community-based volunteer and philanthropic organizations. • Develops CSR strategies that reflect the organization's mission and values. • Ensures that the organization's CSR programs enhance the employee value proposition and have a beneficial impact on HR programs (e.g., recruitment and retention) and/or contribute to the organization's competitive advantage. • Creates CSR program activities that engage the organization's workforce and the community at large. • Coordinates with other business leaders to integrate CSR objectives throughout the organization. • Coordinates with other business leaders to develop and implement appropriate levels of corporate self-governance and transparency. • Develops, with other business leaders, strategies that encourage and support environmentally responsible business decisions.

Functional Area #15: U.S. Employment Law & Regulations

Important note: Only examinees residing within the United States will be tested on these topics; examinees residing outside the U.S. will not be tested on it. All laws and regulations referenced are subject to change.

Definition: *U.S. Employment Law & Regulations* refers to the knowledge and application of all relevant laws and regulations in the United States relating to employment—provisions that set the parameters and limitations for each HR functional area and for organizations overall.

KEY CONCEPTS:

Below are six broad categories of U.S. laws, regulations and Supreme Court cases relating to employment, with selected examples. (Please note that this is **not** an exhaustive list of categories or examples.) State, municipal and other local-level laws, regulations and cases are not included.

- **Compensation** *Examples:* Employee Retirement Income Security Act of 1974 (ERISA); Fair Labor Standards Act of 1938 (FLSA; Wage-Hour Bill; Wagner–Connery Wages and Hours Act) and amendments; Equal Pay Act of 1963 (amending FLSA); Lilly Ledbetter Fair Pay Act of 2009; *Ledbetter v. Goodyear Tire & Rubber Co.* (2007).
- **Employee relations** *Examples:* Labor Management Relations Act of 1947 (LMRA; Taft–Hartley Act); National Labor Relations Act of 1935 (NLRA; Wagner Act; Wagner–Connery Labor Relations Act); *NLRB v. Weingarten* (1975); *Lechmere, Inc. v. NLRB* (1992).

ADDRESSED BY KNOW YOUR EMPLOYMENT LAW FEATURES IN MOST CHAPTERS AS WELL AS IN THE FOLLOWING CHAPTERS:

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- 16 • **Job safety and health** *Examples:* Drug-Free Workplace Act of 1988; Guidelines on Sexual Harassment; Occupational Safety and Health Act of 1970.
- 2 • **Equal employment opportunity** *Examples:* Age Discrimination in Employment Act of 1967 (ADEA) and amendments; Americans with Disabilities Act of 1990 (ADA) and amendments; Civil Rights Acts; Equal Employment Opportunity Act of 1972; Uniform Guidelines on Employee Selection Procedures (1978) (29 CFR Part 1607); *Griggs v. Duke Power Co.* (1971); *Phillips v. Martin Marietta Corp.* (1971).
- 13 • **Leave and benefits** *Examples:* Family and Medical Leave Act of 1993 (FMLA; expanded 2008, 2010); Patient Protection and Affordable Care Act (ACA; “Obamacare”); *National Federation of Independent Business v. Sebelius* (2012).
- 2, 6, 7 • **Miscellaneous protection laws** *Examples:* Employee Polygraph Protection Act of 1988; Genetic Information Nondiscrimination Act of 2008 (GINA).

PROFICIENCY INDICATORS

For All HR Professionals	For Advanced HR Professionals
• Maintains a current working knowledge of relevant domestic and global employment laws. • Ensures that HR programs, practices and policies align and comply with laws and regulations. • Coaches employees at all levels in understanding and avoiding illegal and noncompliant HR-related behaviors (e.g., illegal terminations or discipline, unfair labor practices). • Brokers internal or external legal services for interpretation of employment laws.	• Maintains current, expert knowledge of relevant domestic and global employment laws. • Establishes and monitors criteria for organizational compliance with laws and regulations. • Educates and advises senior leadership on HR-related legal and regulatory compliance issues. • Oversees fulfillment of compliance requirements for HR programs, practices and policies. • Ensures that HR technologies facilitate compliance and reporting requirements (e.g., tracking employee accidents, safety reports).

Comprehensive Cases

BANDAG AUTOMOTIVE*

Jim Bandag took over his family's auto supply business in 2012, after helping his father, who founded the business, run it for about 10 years. Based in Illinois, Bandag employs about 300 people, and distributes auto supplies (replacement mufflers, bulbs, engine parts, and so on) through two divisions, one that supplies service stations and repair shops, and a second that sells retail auto supplies through five "Bandag Automotive" auto supply stores.

Jim's father, and now Jim, have always endeavored to keep Bandag's organization chart as simple as possible. The company has a full-time controller, managers for each of the five stores, a manager who oversees the distribution division, and Jim Bandag's executive assistant. Jim (along with his father, working part-time) handles marketing and sales.

Jim's executive assistant administers the firm's day-to-day human resource management tasks, but the company outsources most HR activities to others, including an employment agency that does its recruiting and screening, a benefits firm that administers its 401(k) plan, and a payroll service that handles its paychecks. Bandag's human resource management systems consist almost entirely of standardized HR forms purchased from an HR supplies company. These include forms such as application and performance appraisal forms, as well as an "honesty" test Bandag uses to screen the staff that works in the five stores. The company performs informal salary surveys to see what other companies in the area are paying for similar positions, and use these results for awarding annual merit increases (which in fact are more accurately cost-of-living adjustments).

Jim's father took a fairly paternal approach to the business. He often walked around speaking with his employees, finding out what their problems were, and even helping them out with an occasional loan—for instance, when he discovered that one of their children was sick, or for part of a new home down payment. Jim, on the other hand, tends to be more abrupt, and does not enjoy the same warm relationship with the employees as did his father. Jim is not unfair or dictatorial. He's just very focused on improving Bandag's financial performance, and so all his decisions, including his HR-related decisions, generally come down to cutting costs. For example, his knee-jerk reaction is usually to offer fewer days off rather than more, fewer benefits rather than more, and to be less flexible when an employee needs, for instance, a few extra days off because a child is sick.

It's therefore perhaps not surprising that over the past few years Bandag's sales and profits have increased markedly, but that the firm has found itself increasingly enmeshed in HR/equal employment-type issues. Indeed, Jim now finds himself spending a day or two a week addressing HR problems. For example, Henry Jaques, an employee at one of the stores, came to Jim's executive assistant and told her he was "irate" about his recent

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firing and was probably going to sue. Henry's store manager stated on his last performance appraisal that Henry did the technical aspects of his job well, but that he had "serious problems interacting with his coworkers." He was continually arguing with them, and complaining to the store manager about working conditions. The store manager had told Jim that he had to fire Henry because he was making "the whole place poisonous," and that (although he felt sorry because he'd heard rumors that Henry suffered from some mental illness) he felt he had to go. Jim approved the dismissal.

Gavin was another problem. Gavin had worked for Bandag for 10 years, the last two as manager of one of the company's five stores. Right after Jim Bandag took over, Gavin told him he had to take a Family and Medical Leave Act medical leave to have hip surgery, and Jim approved the leave. When Gavin returned from leave, Jim told him that his position had been eliminated. Bandag had decided to close his store and open a new, larger store across from a shopping center about a mile away, and had appointed a new manager in Gavin's absence. However, the company did give Gavin a (nonmanagerial) position in the new store as a counter salesperson, at the same salary and with the same benefits as he had before. Even so, "This job is not similar to my old one," Gavin insisted. "It doesn't have nearly as much prestige." His contention is that the FMLA requires that the company bring him back in the same or equivalent position, and that this means a supervisory position, similar to what he had before he went on leave. Jim said no, and they seem to be heading toward litigation.

In another sign of the times at Bandag, the company's controller, Miriam, who had been with the company for about six years, went on pregnancy leave for 12 weeks in 2012 (also under the FMLA), and then received an additional three weeks' leave under Bandag's extended illness days program. Four weeks after she came back, she asked Jim Bandag if she could arrange to work fewer hours per week, and spend about a day per week working out of her home. He refused, and about two months later fired her. Jim Bandag said, "I'm sorry, it's not anything to do with your pregnancy-related requests, but we've got ample reasons to discharge you—your monthly budgets have been several days late, and we've got proof you may have forged documents." She replied, "I don't care what you say your reasons are; you're really firing me because of my pregnancy, and that's illegal."

Jim felt he was on safe ground as far as defending the company for these actions, although he didn't look forward to spending the time and money that he knew it would take to fight each. However, what he learned over lunch from a colleague undermined his confidence about another case that Jim had been sure would be a "slam dunk" for his company. Jim was explaining to his friend that one of Bandag's truck maintenance service people had applied for a job driving one of Bandag's distribution department trucks, and that Jim had turned him down because the worker was deaf. Jim (whose wife has occasionally said of him, "No one has ever accused Jim of being politically correct") was mentioning to his friend the apparent absurdity of a deaf person asking to be a truck delivery person. His friend, who happens to work for UPS, pointed out that the U.S. Court of Appeals for the Ninth Circuit had recently decided that UPS had violated the Americans with Disabilities Act by refusing to consider deaf workers for jobs driving the company's smaller vehicles.

Although Jim's father is semiretired, the sudden uptick in the frequency of such EEO-type issues troubled him, particularly after so many years of labor peace. However, he's not sure what to do about it. Having handed over the reins of the company to his son, he was loath to inject himself back into the company's operational decision making. On the other hand, he was afraid that in the short run these issues were going to drain a great deal of Jim's time and resources, and that in the long run they might be a sign of things to come, with problems like these eventually overwhelming Bandag Automotive. He comes to you, who he knows consults in human resource management, and asks you the following questions.

Questions

1. Given Bandag Automotive's size, and anything else you know about it, should we reorganize the human resource management function, and if so, why and how?
2. What, if anything, would you do to change and/or improve upon the current HR systems, forms, and practices that we now use?
3. Do you think that the employee whom Jim fired for creating what the manager called a poisonous relationship has a legitimate claim against us, and if so, why and what should we do about it?
4. Is it true that we really had to put Gavin back into an equivalent position, or was it adequate to just bring him back into a job at the same salary, bonuses, and benefits as he had before his leave?
5. Miriam, the controller, is basically claiming that the company is retaliating against her for being pregnant, and that the fact that we raised performance issues was just a smokescreen. Do you think the EEOC and/or courts would agree with her, and, in any case, what should we do now?
6. An employee who is deaf has asked us to be one of our delivery people and we turned him down. He's now threatening to sue. What should we do, and why?
7. In the previous 10 years, we've had only one equal employment complaint, and now in the last few years we've had four or five. What should I do about it? Why?

Based generally on actual facts, but Bandag is a fictitious company. Bandag source notes: "The Problem Employee: Discipline or Accommodation?" *Monday Business Briefing*, March 8, 2005; "Employee Says Change in Duties after Leave Violates FMLA," *BNA Bulletin to Management*, January 16, 2007, p. 24; "Manager Fired Days After Announcing Pregnancy," *BNA Bulletin to Management*, January 2, 2007, p. 8; "Ninth Circuit Rules UPS Violated ADA by Barring Deaf Workers from Driving Jobs," *BNA Bulletin to Management*, October 17, 2006, p. 329.

ANGELO'S PIZZA*

Angelo Camero was brought up in the Bronx, New York, and basically always wanted to be in the pizza store business. As a youngster, he would sometimes spend hours at the local pizza store, watching the owner knead the pizza dough, flatten it into a large circular crust, fling it up, and then spread on tomato sauce in larger and larger loops. After graduating from college as a marketing major, he made a beeline back to the Bronx, where he

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opened his first Angelo's Pizza store, emphasizing its clean, bright interior; its crisp green, red, and white sign; and his all-natural, fresh ingredients. Within five years, Angelo's store was a success, and he had opened three other stores and was considering franchising his concept.

Eager as he was to expand, his four years in business school had taught him the difference between being an entrepreneur and being a manager. As an entrepreneur/ small business owner, he knew he had the distinct advantage of being able to personally run the whole operation himself. With just one store and a handful of employees, he could make every decision and watch the cash register, check in the new supplies, oversee the takeout, and personally supervise the service.

When he expanded to three stores, things started getting challenging. He hired managers for the two new stores (both of whom had worked for him at his first store for several years) and gave them only minimal "how to run a store"—type training, on the assumption that, having worked with him for several years, they already knew pretty much everything they needed to know about running a store. However, he was already experiencing human resource management problems, and he knew there was no way he could expand the number of stores he owned, or (certainly) contemplate franchising his idea, unless he had a system in place that he could clone in each new store to provide the managers (or the franchisees) with the necessary management knowledge and expertise to run their stores. Angelo had no training program in place for teaching his store managers how to run their stores. He simply (erroneously, as it turned out) assumed that by working with him they would learn how to do things on the job. Since Angelo had no system in place, the new managers were, in a way, starting off below zero when it came to how to manage a store.

There were several issues that particularly concerned Angelo. Finding and hiring good employees was number one. He'd read the new National Small Business Poll from the National Federation of Independent Business Education Foundation. It found that 71% of small business owners believed that finding qualified employees was "hard." Furthermore, "the search for qualified employees will grow more difficult as demographic and education factors" continue to make it more difficult to find employees. Similarly, reading the *Kiplinger Letter* one day, he noticed that just about every type of business couldn't find enough good employees to hire. Small firms were particularly in jeopardy; the *Letter* said that giant firms can outsource many (particularly entry-level) jobs abroad, and larger companies can also afford to pay better benefits and to train their employees. Small firms rarely have the resources or the economies of scale to allow outsourcing or to install the big training programs that would enable them to take untrained new employees and turn them into skilled ones.

Although finding enough employees was his biggest problem, finding enough honest ones scared him even more. Angelo recalled from one of his business school courses that companies in the United States are losing a total of well over \$400 billion a year in employee theft. As a rough approximation, that works out to about \$9 per employee per day and about \$12,000 lost annually for a typical company. Furthermore, it was small companies like Angelo's that were particularly in the crosshairs, because companies with fewer than 100 employees

are particularly prone to employee theft. Why are small firms particularly vulnerable? Perhaps they lack experience dealing with the problem. More importantly: Small firms are more likely to have a single person doing several jobs, such as ordering supplies and paying the delivery person. This undercuts the checks and balances managers often strive for to control theft. Furthermore, the risk of stealing goes up dramatically when the business is largely based on cash. In a pizza store, many people come in and buy just one or two slices and a cola for lunch, and almost all pay with cash, not credit cards.

And, Angelo was not just worried about someone stealing cash. They can steal your whole business idea, something he learned from painful experience. He had been planning to open a store in what he thought would be a particularly good location, and was thinking of having one of his current employees manage the store. Instead, it turned out that this employee was, in a manner of speaking, stealing Angelo's brain: what Angelo knew about customers, suppliers, where to buy pizza dough, where to buy tomato sauce, how much everything should cost, how to furnish the store, where to buy ovens, store layout—everything. This employee soon quit and opened up his own pizza store, not far from where Angelo had planned to open his new store.

That he was having trouble hiring good employees, there was no doubt. The restaurant business is particularly brutal when it comes to turnover. Many restaurants turn over their employees at a rate of 200% to 300% per year—so every year, each position might have a series of two to three employees filling it. As Angelo said, “I was losing two to three employees a month,” adding, “We’re a high-volume store, and while we should have about six employees per store [to fill all the hours in a week], we were down to only three or four, so my managers and I were really under the gun.”

The problem was bad at the hourly employee level: “We were churning a lot at the hourly level,” said Angelo. “Applicants would come in, my managers or I would hire them and not spend much time training them, and the good ones would leave in frustration after a few weeks, while often it was the bad ones who’d stay behind.” But in the last two years, Angelo’s three company-owned stores also went through a total of three store managers—“They were just blowing through the door,” as Angelo put it, in part because, without good employees, their workday was brutal. As a rule, when a small business owner or manager can’t find enough employees (or an employee doesn’t show up for work), about 80% of the time the owner or manager does the job himself or herself. So, these managers often ended up working seven days a week, 10 to 12 hours a day, and many just burned out in the end. One night, working three jobs himself with customers leaving in anger, Angelo decided he’d never just hire someone because he was desperate again, but would start doing his hiring more rationally.

Angelo knew he should have a more formal screening process. As he said, “If there’s been a lesson learned, it’s much better to spend time up front screening out candidates who don’t fit than to hire them and have to put up with their ineffectiveness.” He also knew that he could identify many of the traits that his employees needed. For example, he knew that not everyone has the temperament to be a waiter (he has a small pizza/Italian restaurant in the back of his main store). As Angelo said, “I’ve seen

personalities that were off the charts in assertiveness or overly introverted, traits that obviously don't make a good fit for a waiter or waitress."

As a local business, Angelo recruits by placing help wanted ads in two local newspapers, and he's been "shocked" at some of the responses and experiences he's had in response to the ads. Many of the applicants left voicemail messages (Angelo or the other workers in the store were too busy to answer), and some applicants Angelo "just axed" on the assumption that people without good telephone manners wouldn't have very good manners in the store, either. He also quickly learned that he had to throw out a very wide net, even if hiring only one or two people. Many people, as noted, he eliminated from consideration because of the messages they left, and about half the people he scheduled to come in for interviews didn't show up. He'd taken courses in human resource management, so (as he said) "I should know better," but he hired people based almost exclusively on a single interview (he occasionally made a feeble attempt to check references). In total, his HR approach was obviously not working. It wasn't producing enough good recruits, and the people he did hire were often problematic.

What was he looking for? Service-oriented courteous people, for one. For example, he'd hired one employee who used profanity several times, including once in front of a customer. On that employee's third day, Angelo had to tell her, "I think Angelo's isn't the right place for you," and he fired her. As Angelo said, "I felt bad, but also knew that everything I have is on the line for this business, so I wasn't going to let anyone run this business down." Angelo wants reliable people (who'll show up on time), honest people, and people who are flexible about switching jobs and hours as required. He calls his management style "trust and track." "I coach them and give them goals, and then carefully track results."

Angelo's Pizza business has only the most rudimentary human resource management system. Angelo bought several application forms at a local Office Depot, and rarely uses other forms of any sort. He uses his personal accountant for reviewing the company's books, and Angelo himself computes each employee's paycheck at the end of the week and writes the checks. Training is entirely on-the-job. Angelo personally trained each of his employees. For those employees who go on to be store managers, he assumes that they are training their own employees the way that Angelo trained them (for better or worse, as it turns out). Angelo pays "a bit above" prevailing wage rates (judging by other help wanted ads), but probably not enough to make a significant difference in the quality of employees whom he attracts. If you asked Angelo what his reputation is as an employer, Angelo, being a candid and forthright person, would probably tell you that he is a supportive but hard-nosed employer who treats people fairly, but whose business reputation may suffer from disorganization stemming from inadequate organization and training. He approaches you to ask you several questions.

Questions

8. My strategy is to (hopefully) expand the number of stores and eventually franchise, while focusing on serving only high-quality fresh ingredients. What are three specific human resource management implications of my strategy (including specific policies and practices)?

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9. Identify and briefly discuss five specific human resource management errors that I'm currently making.
10. Develop a structured interview form that we can use for hiring (1) store managers, (2) wait staff, and (3) counter people/pizza makers.
11. Based on what you know about Angelo's, and what you know from having visited pizza restaurants, write a one-page outline showing specifically how you think Angelo's should go about selecting employees.

Based generally on actual facts, but Angelo's Pizza is a fictitious company. Angelo's Pizza source notes: Dino Berta, "People Problems: Keep Hiring from Becoming a Crying Game," *Nation's Business News*, 36, no. 20, May 20, 2002, pp. 72–74; Ellen Lyon, "Hiring, Personnel Problems Can Challenge Entrepreneurs," *Patriot-News*, October 12, 2004; Rose Robin Pedone, "Businesses' \$400 Billion Theft Problem," *Long Island Business News*, 27, July 6, 1998, pp. 1B–2B; "Survey Shows Small-Business Problems with Hiring, Internet," *Providence Business News*, 16, September 10, 2001, pp. 1B; "Finding Good Workers Is Posing a Big Problem as Hiring Picks Up," *Kiplinger Letter*, 81, February 13, 2004; Ian Mount, "A Pizzeria Owner Learns the Value of Watching the Books," *The New York Times*, October 25, 2012, p. B8.

ALPHABET (GOOGLE)*

Fortune magazine named Google the best of the 100 best companies to work for, and there is little doubt why. Among the benefits it offers are free shuttles equipped with Wi-Fi to pick up and drop off employees from San Francisco Bay Area locations, unlimited sick days, annual all-expense-paid ski trips, free gourmet meals, five on-site free doctors, \$2,000 bonuses for referring a new hire, free flu shots, a giant lap pool, on-site oil changes, on-site car washes, volleyball courts, TGIF parties, free on-site washers and dryers (with free detergent), Ping-Pong and foosball tables, and free famous people lectures. For many people, it's the gourmet meals and snacks that make Google stand out. For example, one human resources director loves the Irish oatmeal with fresh berries at the company's Plymouth Rock Cafe, near Google's "people operations" group. "I sometimes dream about it," she says. Engineer Jan Fitzpatrick loves the raw bar at Google's Tapis restaurant, down the road on the Google campus. Then, of course, there are the stock options—each new employee gets about 1,200 options to buy Google shares (recently worth about \$480 per share). In fact, dozens of early Google employees ("Googlers") are already multimillionaires thanks to Google stock. The recession several years ago did prompt Google and other firms to cut back on some of these benefits (cafeteria hours are shorter today, for instance), but Google still pretty much leads the benefits pack.

For their part, Googlers share certain traits. They tend to be super smart, team oriented (teamwork is the norm, especially for big projects), and driven. *Fortune* describes them as people who "almost universally" see themselves as the most interesting people on the planet, and who are happy-go-lucky on the outside, but type A—highly intense and goal directed—on the inside. They're also super-hardworking (which makes sense, since it's not unusual for engineers to be in the hallways at 3 A.M. debating some new mathematical solution to a Google search problem). They're so team oriented that when working on projects, it's not unusual for Google team members to give up their larger, more spacious offices and to crowd into a small conference room, where they can "get things done." Historically, Googlers generally graduate with great grades from the best universities, including Stanford, Harvard, and MIT. For many years, Google wouldn't even consider hiring someone with less than a 3.7 average—while also probing deeply into the why behind any B grades. Google also doesn't hire lone wolves, but wants people who work together and people who also have diverse interests (narrow interests or skills are a turnoff at

Google). Google also wants people with growth potential. The company is expanding so fast that it needs to hire people who are capable of being promoted multiple times—it's only, the company says, by hiring such over-qualified people that it can be sure that the employees will be able to keep up as Google and their own departments expand.

The starting salaries are highly competitive. Experienced engineers start at about \$130,000 a year (plus about 1,200 shares of stock options, as noted), and new MBAs can expect between \$80,000 and \$120,000 per year (with smaller option grants). Software engineering managers average about \$217,000 per year. Most recently, Google had about 72,000 staff members, up from its beginnings with just three employees in a rented garage.

Of course, in a company that's grown from 3 employees to 72,000 and from zero value to hundreds of billions of dollars, it may be quibbling to talk about "problems," but there's no doubt that such rapid growth does confront Google's management, and particularly its "people operations" group, with some big challenges. Let's look at these.

For one, Google, as noted earlier, is a 24-hour operation, and with engineers and others frequently pulling all-nighters to complete their projects, the company needs to provide a package of services and financial benefits that supports that kind of lifestyle, and that helps its employees maintain an acceptable work-life balance.

As another challenge, Google's enormous financial success is a two-edged sword. Although Google usually wins the recruitment race when it comes to competing for new employees against competitors like Microsoft or Facebook, Google does need some way to stem a rising tide of retirements. Most Googlers are still in their 20s and 30s, but many have become so wealthy from their Google stock options that they can afford to retire. One 27-year-old engineer received a million-dollar founder's award for her work on the program for searching desktop computers, and wouldn't think of leaving "except to start her own company." Similarly, a former engineering vice president retired (with his Google stock profits) to pursue his love of astronomy. The engineer who dreamed up Gmail retired at the age of 30.

Another challenge is that the work involves not only long hours but can also be very tense. Google is a very numbers-oriented environment. For example, consider a typical weekly Google user interface design meeting. Seated around a conference table are about a dozen Googlers, tapping on laptops. During the 2-hour meeting, the head of search products needs to evaluate various design proposals, ranging from minor tweaks to a new product's entire layout. She's previously given each presentation an allotted amount of time, and a large digital clock on the wall ticks off the seconds. The presenters must quickly present their ideas, but also handle questions such as "what do users do if the tab is moved from the side of the page to the top?" Furthermore, it's all about the numbers—no one at Google would ever say, for instance, "the tab looks better in red"—you need to prove your point. Presenters must come armed with usability experiment results, showing, for instance, that a certain percentage preferred red or some other color. While the presenters are answering these questions as quickly as possible, the digital clock is ticking, and when it hits the allotted time, the presentation must end, and the next team steps up to present. It is a tough and tense environment, and Googlers must have done their homework.

Growth can also undermine the “outlaw band that’s changing the world” culture that fostered the services that made Google famous. Even cofounder Sergi Brin agrees that Google risks becoming less “zany” as it grows. To paraphrase one of its top managers, the hard part of any business is keeping that original innovative, small business feel even as the company grows. Several years ago (in 2015) Google appointed Sundar Pichai its new CEO.

Creating the right culture is especially challenging now that Google is truly global. For example, Google works hard to provide the same employee benefits every place it does business around the world, but it can’t exactly match its benefits in every country because of international laws and international taxation issues. Yet offering the same benefits everywhere is more important than it might initially appear. All those benefits make life easier for Google staff, and help them achieve a work–life balance. Achieving the right work–life balance is the centerpiece of Google’s culture, but this also becomes more challenging as the company grows. On the one hand, Google expects all of its employees to work super hard; on the other hand, it realizes that it needs to help them maintain a healthy balance. As one manager says, Google acknowledges “that we work hard but that work is not everything.”

Recruitment is another challenge. While Google certainly doesn’t lack applicants, attracting the right applicants is crucial if Google is to continue to grow successfully. Working at Google requires a special set of traits, and screening employees is easier if it recruits the right people to begin with. For instance, Google needs to attract people who are very smart, love to work, have fun, can handle the stress, and who also have outside interests and flexibility.

As the company grows internationally, it also faces the considerable challenge of recruiting and building staff overseas. For example, Google introduced a new vertical market–based structure across Europe to attract more business advertisers to its search engine. (By vertical market–based structure, Google means focusing on key vertical industry sectors such as travel, retail, automotive, and technology.) To build these industry groupings abroad from scratch, Google promoted its former head of its U.S. financial services group to be the vertical markets director for Europe; he moved there several years ago. Google then had to find heads for each of its vertical industry groups for all of its key European territories. Each of these vertical market heads then have to educate their market sectors (retailing, travel, and so on) so Google can attract new advertisers. Google already has offices around the world.

However, probably the biggest challenge Google faces is evolving its employee selection system, given that the company must hire thousands of people per year. When Google started in business, job candidates typically suffered through a dozen or more in-person interviews, and the standards were so high that even applicants with years of great work experience often got turned down if they had just average college grades. But more recently, even Google’s cofounders acknowledged to security analysts that setting such an extraordinarily high bar for hiring was holding back Google’s expansion. For Google’s early years, one of the company’s cofounders interviewed nearly every job candidate before he or she was hired, and even today one of them still reviews the qualifications of everyone before he or she gets a final offer.

The experience of one candidate illustrates what Google was up against. A 24-year-old is interviewed for a corporate communications job at Google. Google first made contact with the candidate in May, and then, after two phone interviews, invited him to headquarters. There he had separate interviews with about six people

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and was treated to lunch in a Google cafeteria. They also had him turn in several “homework” assignments, including a personal statement and a marketing plan. In August, Google invited the candidate back for a second round, which it said would involve another four or five interviews. In the meantime, he decided he’d rather work at a start-up, and accepted another job at a new Web-based instant messaging provider.

Google’s head of “people operations” says that Google is trying to strike the right balance between letting Google and the candidate get to know each other while also moving quickly. To that end, Google administered a survey to all Google’s current employees in an effort to identify the traits that correlate with success at Google. In the survey, employees responded to questions relating to about 300 variables, including their performance on standardized tests, how old they were when they first used a computer, and how many foreign languages they speak. The Google survey team then went back and compared the answers against the 30 or 40 job performance factors they keep for each employee. They thereby identified clusters of traits that Google might better focus on during the hiring process. Google also moved from the free-form interviews it used in the past to a more structured process.

Questions

12. What do you think of the idea of Google correlating personal traits from the employees’ answers on the survey to their performance, and then using that as the basis for screening job candidates? In other words, is it or is it not a good idea? Please explain your answer.
13. The benefits that Google pays obviously represent an enormous expense. Based on what you know about Google and on what you read in this book, how would you defend all these benefits if you’re making a presentation to the security analysts who were analyzing Google’s performance?
14. If you wanted to hire the brightest people around, how would you go about recruiting and selecting them? How does your proposed approach compare with how Google actually does it (based on this case and anything else you recall reading about Google in this book)?
15. To support its growth and expansion strategy, Google wants (among other traits) people who are very bright and who work hard, often round-the-clock, and who are flexible and maintain a decent work-life balance. List five specific HR policies or practices that you think Google has implemented or should implement to support its strategy, and explain your answer.
16. What sorts of factors do you think Google will have to take into consideration as it tries transferring its culture and reward systems and way of doing business to its operations abroad?
17. Given the sorts of values and culture Google cherishes, briefly describe four specific activities you suggest it pursue during new-employee orientation.

Source: Notes for Google: “Google Brings Vertical Structure to Europe,” *New Media Age*, August 4, 2005, p. 2; Debbie Lovewell, “Employer Profile—Google: Searching for Talent,” *Employee Benefits*, October 10, 2005, p. 66; “Google Looking for Gourmet Chefs,” *Internet Week*, August 4, 2005; Douglas Merrill, “Google’s ‘Googley’ Culture Kept Alive by Tech,” *eWeek*, April 11, 2006; Robert Hof, “Google Gives Employees Another Option,” *BusinessWeek Online*, December 13, 2005; Kevin Delaney, “Google Adjusts Hiring Process as Needs Grow,” *The Wall Street*

Journal, October 23, 2006, pp. B1, B8; Adam Lishinsky, "Search and Enjoy," *Fortune*, January 22, 2007, pp. 70–82; www.nypost.com/seven/10302008/business/frugal_google_cuts_perks_136011.htm, accessed July 12, 2009; Adam Bryant, "The Quest to Build a Better Boss," *New York Times*, March 13, 2011, pp. 1, 7; Mark C. Crowley, "Not a Happy Accident: How Google Deliberately Designs Workplace Satisfaction," www.fastcompany.com/3007268/where-are-they-now/not-happy-accident-how-google-deliberately-designs-workplace-satisfaction, accessed September 16, 2014; Google salaries in the United States, <https://www.indeed.com/cmp/Google/salaries>, accessed May 8, 2018; <https://www.recode.net/2017/7/24/16022210/alphabet-google-employment-employees-doubled-headcount>, accessed May 8, 2018; <http://fortune.com/best-companies/2017/google/>, accessed May 8, 2018.

MUFFLER MAGIC*

Muffler Magic is a fast-growing chain of 25 automobile service centers in Nevada. Originally started 20 years ago as a muffler repair shop by Ronald Brown, the chain expanded rapidly to new locations, and as it did so Muffler Magic also expanded the services it provided, from muffler replacement to oil changes, brake jobs, and engine repair. Today, one can bring an automobile to a Muffler Magic shop for basically any type of service, from tires to mufflers to engine repair.

Auto service is a tough business. The shop owner is basically dependent upon the quality of the service people he or she hires and retains, and the most qualified mechanics find it easy to pick up and leave for a job paying a bit more at a competitor down the road. It's also a business in which productivity is very important. The single largest expense is usually the cost of labor. Auto service dealers generally don't just make up the prices that they charge customers for various repairs; instead, they charge based on standardized industry rates for jobs like changing spark plugs or repairing a leaky radiator. Therefore, if someone brings a car in for a new alternator and the standard number of hours for changing the alternator is an hour, but it takes the mechanic 2 hours, the service center's owner may end up making less profit on the transaction.

Quality is a persistent problem as well. For example, "rework" has recently been a problem at Muffler Magic. A customer recently brought her car to a Muffler Magic to have the car's brake pads replaced, which the service center did for her. Unfortunately, when she left she drove only about two blocks before she discovered that she had no brake power at all. It was simply fortuitous that she was going so slowly she was able to stop her car by slowly rolling up against a parking bumper. It subsequently turned out that the mechanic who replaced the brake pads had failed to properly tighten a fitting on the hydraulic brake tubes and the brake fluid had run out, leaving the car with no braking power. In a similar problem the month before that, a (different) mechanic replaced a fan belt, but forgot to refill the radiator with fluid; that customer's car overheated before he got four blocks away, and Muffler Magic had to replace the whole engine. Of course problems like these not only diminish the profitability of the company's profits, but, repeated many times over, have the potential for ruining Muffler Magic's word-of-mouth reputation.

Organizationally, Muffler Magic employs about 300 people, and Ron runs his company with eight managers, including himself as president, a controller, a purchasing director, a marketing director, and the human resource manager. He also has three regional managers to whom the eight or nine service center managers in each area of Nevada report. Over the past two years, as the company has opened new service centers, company-wide profits have diminished rather than increased. In part, these diminishing profits probably reflect the fact that Ron Brown has found it increasingly difficult to manage his growing operation. ("Your reach is exceeding your grasp" is how Ron's wife puts it.)

The company has only the most basic HR systems in place. It uses an application form that the human resource manager modified from one that he downloaded from the Web, and the standard employee status change request forms, sign-on forms, I-9 forms, and so on, that it purchased from a human resource management supply house. Training is entirely on-the-job. Muffler Magic expects the experienced technicians that it hires to come to the job fully trained; to that end, the service center managers generally ask candidates for these jobs basic behavioral questions that hopefully provide a window into these applicants' skills. However, most of the other technicians hired to do jobs like rotating tires, fixing brake pads, and replacing mufflers are untrained and inexperienced. They are to be trained by either the service center manager or by more experienced technicians, on-the-job.

Ron Brown faces several HR-type problems. One, as he says, is that he faces the "tyranny of the immediate" when it comes to hiring employees. Although it's fine to say that he should be carefully screening each employee and checking his or her references and work ethic, from a practical point of view, with 25 centers to run, the centers' managers usually just hire anyone who seems to be breathing, as long as he or she can answer some basic interview questions about auto repair, such as, "What do you think the problem is if a 2001 Camry is overheating, and what would you do about it?"

Employee safety is also a problem. An automobile service center may not be the most dangerous type of workplace, but it is potentially dangerous. Employees are dealing with sharp tools, greasy floors, greasy tools, extremely hot temperatures (for instance, on mufflers and engines), and fast-moving engine parts including fan blades. There are some basic things that a service manager can do to ensure more safety, such as insisting that all oil spills be cleaned up immediately. However, from a practical point of view, there are few ways to get around many of the problems—such as when the technician must check out an engine while it is running.

With Muffler Magic's profits going down instead of up, Brown's human resource manager has taken the position that the main problem is financial. As he says, "You get what you pay for" when it comes to employees, and if you compensate technicians better than your competitors do, then you get better technicians, ones who do their jobs better and stay longer with the company—and then profits will rise. So, the HR manager scheduled a meeting between himself, Ron Brown, and a professor of business who teaches compensation management at a local university. The HR manager has asked this professor to spend about a week looking at each of the service centers, analyzing the situation, and coming up with a compensation plan that will address Muffler Magic's quality and productivity problems. At this meeting, the professor makes three basic recommendations for changing the company's compensation policies.

Number one, she says that she has found that Muffler Magic suffers from what she calls "presenteeism"—in other words, employees drag themselves into work even when they're sick, because the company does not pay them if they are out; the company offers no sick days. In just a few days the professor couldn't properly quantify how much Muffler Magic is losing to presenteeism. However, from what she could see at each shop, there are typically one or two technicians working with various maladies like the cold or flu, and it seemed to her that each of these people was probably really

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only working about half of the time (although they were getting paid for the whole day). So, for 25 service centers per week, Muffler Magic could well be losing 125 or 130 personnel days per week of work. The professor suggests that Muffler Magic start allowing everyone to take three paid sick days per year, a reasonable suggestion. However, as Ron Brown points out, “Right now, we’re only losing about half a day’s pay for each employee who comes in and who works unproductively; with your suggestion, won’t we lose the whole day?” The professor says she’ll ponder that one.

Second, the professor recommends putting the technicians on a skill-for-pay plan. Basically, she suggests the following. Give each technician a letter grade (A through E) based upon that technician’s particular skill level and abilities. An “A” technician is a team leader and needs to show that he or she has excellent diagnostic troubleshooting skills, and the ability to supervise and direct other technicians. At the other extreme, an “E” technician would typically be a new apprentice with little technical training. The other technicians fall in between those two levels, based on their individual skills and abilities.

In the professor’s system, the “A” technician or team leader would assign and supervise all work done within his or her area but generally not do any mechanical repairs himself or herself. The team leader does the diagnostic troubleshooting, supervises and trains the other technicians, and test drives the car before it goes back to the customer. Under this plan, every technician receives a guaranteed hourly wage within a certain range, for instance:

- A tech = \$25–\$30 an hour
- B tech = \$20–\$25 an hour
- C tech = \$15–\$20 an hour
- D tech = \$10–\$15 an hour
- E tech = \$8–\$10 an hour

Third, to directly address the productivity issue, the professor recommends that each service manager calculate each technician-team’s productivity at the end of each day and at the end of each week. She suggests posting the running productivity total conspicuously for daily viewing. Then, the technicians as a group get weekly cash bonuses based upon their productivity. To calculate productivity, the professor recommends dividing the total labor hours billed by the total labor hours paid to technicians; in other words, total labor hours billed *divided by* total hours paid to technicians.

Having done some homework, the professor says that the national average for labor productivity is currently about 60%, and that only the best-run service centers achieve 85% or greater. By her rough calculations, Muffler Magic was attaining about industry average (about 60%—in other words, they were billing for only about 60 hours for each 100 hours that they actually had to pay technicians to do the jobs). (Of course, this was not entirely the technicians’ fault. Technicians get time off for breaks and for lunch, and if a particular service center simply didn’t have enough business on a particular day or during a particular week, then several technicians may well sit around idly waiting for the next car to come in.) The professor recommends setting a labor efficiency goal of 80% and posting each team’s daily productivity results in the workplace to provide them with additional feedback. She recommends that if at the end of a week the team is able to boost its productivity ratio from the current 60% to 80%, then that team would get an additional 10% weekly pay bonus. After that, for every 5% boost of increased productivity above 80%, technicians would receive an additional 5% weekly bonus. So,

if a technician's normal weekly pay is \$400, that employee would receive an extra \$40 at the end of the week when his team moves from 60% productivity to 80% productivity.

After the meeting, Ron Brown thanked the professor for her recommendations and told her he would think about it and get back to her. After the meeting, on the drive home, Ron was pondering what to do. He had to decide whether to institute the professor's sick leave policy, and whether to implement the professor's incentive and compensation plan. Before implementing anything, however, he wanted to make sure he understood the context in which he was making his decision. For example, did Muffler Magic really have an incentive pay problem, or were the problems more broad? Furthermore, how, if at all, would the professor's incentive plan impact the quality of the work that the teams were doing? And should the company really start paying employees for sick days? Ron Brown had a lot to think about.

Questions

18. Write a one-page summary outline listing three or four recommendations you would make with respect to each HR function (recruiting, selection, training, and so on) that you think Ron Brown should be addressing with his HR manager.
19. Develop a 10-question structured interview form Ron Brown's service center managers can use to interview experienced technicians.
20. If you were Ron Brown, would you implement the professor's recommendation addressing the presenteeism problem—in other words, start paying for sick days? Why or why not?
21. If you were advising Ron Brown, would you recommend that he implement the professor's skill-based pay and incentive pay plan as is? Why? Would you implement it with modifications? If you would modify it, please be specific about what you think those modifications should be, and why.

Based generally on actual facts, but Muffler Magic is a fictitious company. This case is based largely on information in Drew Paras, "The Pay Factor: Technicians' Salaries Can Be the Largest Expense in a Server Shop, as Well as the Biggest Headache. Here's How One Shop Owner Tackled the Problem," *Motor Age*, November 2003, pp. 76–79; see also Jennifer Pellet, "Health Care Crisis," *Chief Executive*, June 2004, pp. 56–61; "Firms Press to Quantify, Control Presenteeism," *Employee Benefits*, December 1, 2002.

BP TEXAS CITY*

When British Petroleum's (BP) Horizon oil rig exploded in the Gulf of Mexico in 2010, it triggered tragic reminders for experts in the safety community. In March 2005, an explosion and fire at BP's Texas City, Texas, refinery killed 15 people and injured 500 people in the worst U.S. industrial accident in more than 10 years. That disaster triggered three investigations: one internal investigation by BP, one by the U.S. Chemical Safety Board, and an independent investigation chaired by former U.S. Secretary of State James Baker and an 11-member panel that was organized at BP's request.

¹ These findings and the following suggestions are based on "BP Safety Report Finds Company's Process Safety Culture Ineffective," *Global Refining & Fuels Report*, January 17, 2007.

To put the results of these three investigations into context, it's useful to understand that under its current management, BP had pursued, for the past 10 or so years before the Texas City explosion, a strategy emphasizing cost-cutting and profitability. The basic conclusion of the investigations was that cost-cutting helped compromise safety at the Texas City refinery. It's useful to consider each investigation's findings.

The Chemical Safety Board's (CSB) investigation, according to Carol Merritt, the board's chair, showed that "BP's global management was aware of problems with maintenance, spending, and infrastructure well before March 2005." Apparently, faced with numerous earlier accidents, BP did make some safety improvements. However, it focused primarily on emphasizing personal employee safety behaviors and procedural compliance, and thereby reducing safety accident rates. The problem (according to the CSB) was that "catastrophic safety risks remained." For example, according to the CSB, "unsafe and antiquated equipment designs were left in place, and unacceptable deficiencies in preventive maintenance were tolerated." Basically, the CSB found that BP's budget cuts led to a progressive deterioration of safety at the Texas City refinery. Said Merritt, "In an aging facility like Texas City, it is not responsible to cut budgets related to safety and maintenance without thoroughly examining the impact on the risk of a catastrophic accident."

Looking at specifics, the CSB said that a 2004 internal audit of 35 BP business units, including Texas City (BP's largest refinery), found significant safety gaps they all had in common, including, for instance, a lack of leadership competence, and "systemic underlying issues" such as a widespread tolerance of noncompliance with basic safety rules and poor monitoring of safety management systems and processes. Ironically, the CSB found that BP's accident prevention effort at Texas City had achieved a 70% reduction in worker injuries in the year before the explosion. Unfortunately, this simply meant that individual employees were having fewer accidents. The larger, more fundamental problem was that the potentially explosive situation inherent in the depreciating machinery remained.

The CSB found that the Texas City explosion followed a pattern of years of major accidents at the facility. In fact, there had apparently been an average of one employee death every 16 months at the plant for the last 30 years. The CSB found that the equipment directly involved in the most recent explosion was an obsolete design already phased out in most refineries and chemical plants, and that key pieces of its instrumentation were not working. There had also been previous instances where flammable vapors were released from the same unit in the 10 years prior to the explosion. In 2003, an external audit had referred to the Texas City refinery's infrastructure and assets as "poor" and found what it referred to as a "checkbook mentality," one in which budgets were not sufficient to manage all the risks. In particular, the CSB found that BP had implemented a 25% cut on fixed costs between 1998 and 2000 and that this adversely impacted maintenance expenditures and net expenditures, and refinery infrastructure. Going on, the CSB found that in 2004, there were three major accidents at the refinery that killed three workers.

BP's own internal report concluded that the problems at Texas City were not of recent origin, and instead were years in the making. It said BP was taking steps to address them. Its investigation found "no evidence of anyone consciously or intentionally taking actions or making decisions that put others at risk." Said BP's report, "The underlying reasons for the behaviors and actions displayed during the incident are complex, and the team has spent much time trying to understand them—it is evident that they were many years in the making and will require concerted and committed actions to address." BP's report concluded that there were five underlying causes for the massive explosion:

- A working environment had eroded to one characterized by resistance to change, and a lack of trust.
- Safety, performance, and risk-reduction priorities had not been set and consistently reinforced by management.
- Changes in the “complex organization” led to a lack of clear accountabilities and poor communication.
- A poor level of hazard awareness and understanding of safety resulted in workers accepting levels of risk that were considerably higher than at comparable installations.
- Adequate early warning systems for problems were lacking, and there were no independent means of understanding the deteriorating standards at the plant.

The report from the BP-initiated but independent 11-person panel chaired by former U.S. Secretary of State James Baker contained specific conclusions and recommendations. The Baker panel looked at BP’s corporate safety oversight, the corporate safety culture, and the process safety management systems at BP at the Texas City plant as well as at BP’s other refineries.

Basically, the Baker panel concluded that BP had not provided effective safety process leadership and had not established safety as a core value at the five refineries it looked at (including Texas City).

Like the CSB, the Baker panel found that BP had emphasized personal safety in recent years and had in fact improved personal safety performance, but had not emphasized the overall safety process, thereby mistakenly interpreting “improving personal injury rates as an indication of acceptable process safety performance at its U.S. refineries.” In fact, the Baker panel went on, by focusing on these some what misleading improving personal injury rates, BP created a false sense of confidence that it was properly addressing process safety risks. It also found that the safety culture at Texas City did not have the positive, trusting, open environment that a proper safety culture required. The Baker panel’s other findings included the following.

- BP did not always ensure that adequate resources were effectively allocated to support or sustain a high level of process safety performance.
- BP’s refinery personnel are “overloaded” by corporate initiatives.
- Operators and maintenance personnel work high rates of overtime.
- BP tended to have a short-term focus and its decentralized management system and entrepreneurial culture delegated substantial discretion to refinery plant managers “without clearly defining process safety expectations, responsibilities, or accountabilities.”
- There was no common, unifying process safety culture among the five refineries.
- The company’s corporate safety management system did not make sure there was timely compliance with internal process safety standards and programs.
- BP’s executive management either did not receive refinery-specific information that showed that process safety deficiencies existed at some of the plants, or did not effectively respond to any information it did receive.

The Baker panel made several safety recommendations for BP, including the following.

1. The company's corporate management must provide leadership on process safety.
2. The company should establish a process safety management system that identifies, reduces, and manages the process safety risks of the refineries.
3. The company should make sure its employees have an appropriate level of process safety knowledge and expertise.
4. The company should involve "relevant stakeholders" in developing a positive, trusting, and open process safety culture at each refinery.
5. BP should clearly define expectations and strengthen accountability for process safety performance.
6. BP should better coordinate its process safety support for the refining line organization.
7. BP should develop an integrated set of leading and lagging performance indicators for effectively monitoring process safety performance.
8. BP should establish and implement an effective system to audit process safety performance.
9. The company's board should monitor the implementation of the panel's recommendations and the ongoing process safety performance of the refineries.
10. BP should transform itself into a recognized industry leader in process safety management.¹

In making its recommendations, the panel singled out the company's chief executive at the time, Lord Browne, by saying, "In hindsight, the panel believes if Browne had demonstrated comparable leadership on and commitment to process safety [as he did for responding to climate change] that would have resulted in a higher level of safety at refineries."

Overall, the Baker panel found that BP's top management had not provided "effective leadership" on safety. It found that the failings went to the very top of the organization, to the company's chief executive, and to several of his top lieutenants. The Baker panel emphasized the importance of top management commitment, saying, for instance, that "it is imperative that BP leadership set the process safety tone at the top of the organization and establish appropriate expectations regarding process safety performance." It also said BP "has not provided effective leadership in making certain its management and U.S. refining workforce understand what is expected of them regarding process safety performance."

Lord Browne, the chief executive, stepped down about a year after the explosion. About the same time, some BP shareholders were calling for the company's executives and board directors to have their bonuses more closely tied to the company's safety and environmental performance in the wake of Texas City. In October 2009, OSHA announced it was filing the largest fine in its history for this accident, for \$87 million, against BP. One year later, BP's Horizon oil rig in the Gulf of Mexico exploded, taking 11 lives. In September 2014, the U.S. District judge presiding over negligence claims in the ensuing case found BP guilty of gross negligence, basically reckless and extreme behavior; the company will appeal his ruling.

Questions

22. The text defines ethics as “the principles of conduct governing an individual or a group,” and specifically as the standards one uses to decide what his or her conduct should be. To what extent do you believe that what happened at BP is as much a breakdown in the company’s ethical systems as it is in its safety systems, and how would you defend your conclusion?
23. Are the Occupational Safety and Health Administration’s standards, policies, and rules aimed at addressing problems like the ones that apparently existed at the Texas City plant? If so, how would you explain the fact that problems like these could have continued for so many years?
24. Since there were apparently at least three deaths in the year prior to the major explosion, and an average of about one employee death per 16 months for the previous 10 years, how would you account for the fact that mandatory OSHA inspections missed these glaring sources of potential catastrophic events?
25. The text lists numerous suggestions for “how to prevent accidents.” Based on what you know about the Texas City explosion, what do you say Texas City tells you about the most important three steps an employer can take to prevent accidents?
26. Based on what you learned in Chapter 16, would you make any additional recommendations to BP over and above those recommendations made by the Baker panel and the CSB? If so, what would those recommendations be?
27. Explain specifically how strategic human resource management at BP seems to have supported the company’s broader strategic aims. What does this say about the advisability of always linking human resource strategy to a company’s strategic aims?

Source: Notes for BP Texas City: Sheila McNulty, “BP Knew of Safety Problems, Says Report,” *Financial Times*, October 31, 2006, p. 1 “CBS: Documents Show BP Was Aware of Texas City Safety Problems,” *World Refining & Fuels Today*, October 30, 2006; “BP Safety Report Finds Company’s Process Safety Culture Ineffective,” *Global Refining & Fuels Report*, January 17, 2007; “BP Safety Record Under Attack,” *Europe Intelligence Wire*, January 17, 2007; Mark Hofmann, “BP Slammed for Poor Leadership on Safety, Oil Firm Agrees to Act on Review Panel’s Recommendations,” *Business Intelligence*, January 22, 2007, p. 3 “Call for Bonuses to Include Link with Safety Performance,” *Guardian*, January 18, 2007, p. 24 www.bp.com/genericarticle.do?categoryId=9005029&contentId=7015905, accessed July 12, 2009; Steven Greenhouse, “BP Faces Record Fine for ‘05 Blast,” *The New York Times*, October 30, 2009, pp. 1, 6; Kyle W. Morrison, “Blame to Go Around,” *Safety & Health*, 183, no. 3, March 2011, p. 40 Ed Crooks, “BP Had Tools to End Spill Sooner, Court Told,” www.ft.com/cms/s/0/40d7b076-2ae8-11e3-8fb8-00144feab7de.html?ftcamp=published_links%2Frss%2Fhome_uk%2Ffeed%2F%2Fproduct#axzz2gZshHFOc, accessed October 2, 2013; Daniel Gilbert and Justin Scheck, “Judge Hammers BP for Gulf Disaster,” *The Wall Street Journal*, September 5, 2014, pp. B1, B2.

GLOSSARY

4/5ths rule Federal agency rule that a minority selection rate less than 80% (4/5ths) of that for the group with the highest rate is evidence of adverse impact.

401(k) plan A defined contribution plan based on section 401(k) of the Internal Revenue Code.

action learning A training technique by which management trainees are allowed to work full-time analyzing and solving problems in other departments.

adaptability screening A process that aims to assess the assignees' (and spouses') probable success in handling a foreign transfer.

adverse impact The overall impact of employer practices that result in significantly higher percentages of members of minorities and other protected groups being rejected for employment, placement, or promotion.

affirmative action Steps that are taken for the purpose of eliminating the present effects of past discrimination.

Age Discrimination in Employment Act of 1967 (ADEA) The act prohibiting arbitrary age discrimination and specifically protecting individuals over 40 years old.

agency shop A form of union security in which employees who do not belong to the union must still pay union dues on the assumption that union efforts benefit all workers.

alternation ranking method Ranking employees from best to worst on a particular trait, choosing highest, then lowest, until all are ranked.

alternative dispute resolution or ADR program Grievance procedure that provides for binding arbitration as the last step.

alternative staffing The use of nontraditional recruitment sources.

Americans with Disabilities Act (ADA) The act requiring employers to make reasonable accommodations for disabled employees; it prohibits discrimination against disabled persons.

analytics Using tools like statistical techniques to examine data, in order to draw cause-effect conclusions from that data.

annual bonus Plans that are designed to motivate short-term performance of managers and that are tied to company profitability.

applicant tracking systems (ATS) Online systems that help employers attract, gather, screen, compile, and manage applicants.

application form The form that provides information on education, prior work record, and skills.

appraisal interview An interview in which the supervisor and subordinate review the appraisal and make plans to remedy deficiencies and reinforce strengths.

apprenticeship training A structured process by which people become skilled workers through a combination of classroom instruction and on-the-job training.

arbitration The most definitive type of third-party intervention, in which the arbitrator usually has the power to determine and dictate the settlement terms.

artificial intelligence Using technology (particularly computers) to carry out tasks in a way that we would consider "human" or "smart".

authority The right to make decisions, direct others' work, and give orders.

authorization cards In order to petition for a union election, the union must show that at least 30% of employees may be interested in being unionized. Employees indicate this interest by signing authorization cards.

bargaining unit The group of employees the union will be authorized to represent.

behavior-based safety Identifying the worker behaviors that contribute to accidents and then training workers to avoid these behaviors.

behavior modeling A training technique in which trainees are first shown good management techniques in a film, are asked to play roles in a simulated situation, and are then given feedback and praise by their supervisor.

behavior modification Using contingent rewards or punishment to change behavior.

behavioral interview A series of job-related questions that focus on how the candidate reacted to actual situations in the past.

behaviorally anchored rating scale (BARS) An appraisal method that aims at combining the benefits of narrative critical incidents and quantified ratings by anchoring a quantified scale with specific narrative examples of good and poor performance.

benchmark job A job that is used to anchor the employer's pay scale and around which other jobs are arranged in order of relative worth.

benefits Indirect financial and nonfinancial payments employees receive for continuing their employment with the company.

bias The tendency to allow individual differences such as age, race, and sex to affect the appraisal ratings employees receive.

bona fide occupational qualification (BFOQ) Requirement that an employee be of a certain religion, sex, or national origin where that is reasonably necessary to the organization's normal operation. Specified by the 1964 Civil Rights Act.

boycott The combined refusal by employees and other interested parties to buy or use the employer's products.

- broadbanding** Consolidating salary grades and ranges into just a few wide levels or “bands,” each of which contains a relatively wide range of jobs and salary levels.
- burnout** The total depletion of physical and mental resources caused by excessive striving to reach an unrealistic work-related goal.
- business process reengineering** Redesigning business processes, usually by combining steps, so that small multi-function process teams using information technology do the jobs formerly done by a sequence of departments.
- cafeteria benefits plan** Individualized tax-qualified plans allowed by employers to accommodate employee preferences for benefits.
- candidate-order (or contrast) error** An error of judgment on the part of the interviewer due to interviewing one or more very good or very bad candidates just before the interview in question.
- career** The occupational positions a person has had over many years.
- career development** The lifelong series of activities that contribute to a person’s career exploration, establishment, success, and fulfillment.
- career management** The process for enabling employees to better understand and develop their career skills and interests, and to use these skills and interests more effectively.
- career planning** The deliberate process through which someone becomes aware of personal skills, interests, knowledge, motivations, and other characteristics and establishes action plans to attain specific goals.
- case study method** A development method in which the manager is presented with a written description of an organizational problem to diagnose and solve.
- cash balance plans** Plans under which the employer contributes a percentage of employees’ current pay to employees’ pension plans every year, and employees earn interest on this amount.
- central tendency** A tendency to rate all employees the same way, such as rating them all average.
- citation** Summons informing employers and employees of the regulations and standards that have been violated in the workplace.
- Civil Rights Act of 1991 (CRA 1991)** The act that places the burden of proof back on employers and permits compensatory and punitive damages.
- classes** Grouping jobs based on a set of rules for each group or class, such as amount of independent judgment, skill, physical effort, and so forth, required. Classes usually contain similar jobs.
- closed shop** A form of union security in which the company can hire only union members. This was outlawed in 1947 but still exists in some industries (such as printing).
- coaching** Educating, instructing, and training subordinates.
- codetermination** Employees have the legal right to a voice in setting company policies.
- collective bargaining** The process through which representatives of management and the union meet to negotiate a labor agreement.
- college recruiting** Sending an employer’s representatives to college campuses to prescreen applicants and create an applicant pool from the graduating class.
- compa ratio** Equals an employee’s pay rate divided by the pay range midpoint for his or her pay grade.
- comparable worth** The concept by which women who are usually paid less than men can claim that men in comparable rather than in strictly equal jobs are paid more.
- compensable factor** A fundamental, compensable element of a job, such as skills, effort, responsibility, and working conditions.
- competency-based job analysis** Describing the job in terms of measurable, observable, behavioral competencies (knowledge, skills, and/or behaviors) that an employee doing that job must exhibit to do the job well.
- competency-based pay** Where the company pays for the employee’s range, depth, and types of skills and knowledge, rather than for the job title he or she holds.
- competency model** A graphic model that consolidates, usually in one diagram, a precise overview of the competencies (the knowledge, skills, and behaviors) someone would need to do a job well.
- competitive advantage** Any factors that allow an organization to differentiate its product or service from those of its competitors to increase market share.
- competitive strategy** A strategy that identifies how to build and strengthen the business’s long-term competitive position in the marketplace.
- compressed workweek** Schedule in which employee works fewer but longer days each week.
- construct validity** A test that is construct valid is one that demonstrates that a selection procedure measures a construct and that construct is important for successful job performance.
- content validity** A test that is content valid is one that contains a fair sample of the tasks and skills actually needed for the job in question.
- controlled experimentation** Formal methods for testing the effectiveness of a training program, preferably with before-and-after tests and a control group.
- corporate campaign** An organized effort by the union that exerts pressure on the corporation by pressuring the company’s other unions, shareholders, directors, customers, creditors, and government agencies, often directly.

corporate-level strategy Type of strategy that identifies the portfolio of businesses that, in total, comprise the company and the ways in which these businesses relate to each other.

criterion validity A type of validity based on showing that scores on the test (predictors) are related to job performance (criterion).

critical incident method Keeping a record of uncommonly good or undesirable examples of an employee's work-related behavior and reviewing it with the employee at predetermined times.

cross training Training employees to do different tasks or jobs than their own; doing so facilitates flexibility and job rotation.

Davis-Bacon Act (1931) A 1931 law that sets wage rates for laborers employed by contractors working for the federal government.

decertification Legal process for employees to terminate a union's right to represent them.

deferred profit-sharing plan A plan in which a certain amount of profits is credited to each employee's account, payable at retirement, termination, or death.

defined benefit pension plan A plan that contains a formula for determining retirement benefits.

defined contribution pension plan A plan in which the employer's contribution to employees' retirement savings funds is specified.

diary/log Daily listings made by workers of every activity in which they engage along with the time each activity takes.

digital dashboard Presents the manager with desktop graphs and charts, and shows a computerized picture of where the company stands on all those metrics from the HR scorecard process.

direct financial payments Pay in the form of wages, salaries, incentives, commissions, and bonuses.

discrimination Taking specific actions toward or against a person based on the person's group.

dismissal Involuntary termination of an employee's employment with the firm.

disparate rejection rates A test for adverse impact in which it can be demonstrated that there is a discrepancy between rates of rejection of members of a protected group and of others.

distributive justice Refers to a system of distributing rewards and discipline in which the actual results or outcomes are evenhanded and fair.

diversity The variety or multiplicity of demographic features that characterize a company's workforce, particularly in terms of race, sex, culture, national origin, handicap, age, and religion.

downsizing The process of reducing, usually dramatically, the number of people employed by a firm.

early retirement window A type of offering by which employees are encouraged to retire early, the incentive being liberal pension benefits plus perhaps a cash payment.

earnings-at-risk pay plan Plan that puts some portion of employees' normal pay at risk if they don't meet their goals, in return for possibly obtaining a much larger bonus if they exceed their goals.

economic strike A strike that results from a failure to agree on the terms of a contract that involves wages, benefits, and other conditions of employment.

Electronic Communications Privacy Act (ECPA) The ECPA is a federal law intended to help restrict interception and monitoring of oral and wire communications.

electronic performance monitoring (EPM) Having supervisors electronically monitor the amount of computerized data an employee is processing per day, and thereby his or her performance.

electronic performance support systems (EPSS) Sets of computerized tools and displays that automate training, documentation, and phone support; integrate this automation into applications; and provide support that's faster, cheaper, and more effective than traditional methods.

employee assistance program (EAP) A formal employer program for providing employees with counseling and/or treatment programs for problems such as alcoholism, gambling, or stress.

employee compensation All forms of pay or rewards going to employees and arising from their employment.

employee orientation A procedure for providing new employees with basic background information about the firm.

employee recruiting Finding and/or attracting applicants for the employer's open positions.

employee relations The activity that involves establishing and maintaining the positive employee-employer relationships that contribute to satisfactory productivity, motivation, morale, and discipline, and to maintaining a positive, productive, and cohesive work environment.

Employee Retirement Income Security Act (ERISA) The 1974 law that provides government protection of pensions for all employees with company pension plans. It also regulates vesting rights (employees who leave before retirement may claim compensation from the pension plan); signed into law by President Ford to require that pension rights be vested and protected by a government agency, the PBGC.

employee stock ownership plan (ESOP) A qualified, tax deductible stock bonus plan in which employers contribute stock to a trust for eventual use by employees. The corporation contributes shares of its own stock to a trust in which additional contributions are made annually. The

- trust distributes the stock to employees on retirement or separation from service.
- employment engagement** The extent to which an organization's employees are psychologically involved in, connected to, and committed to getting their jobs done.
- Equal Employment Opportunity Commission (EEOC)** The commission, created by Title VII, empowered to investigate job discrimination complaints and sue on behalf of complainants.
- Equal Pay Act of 1963** The act requiring equal pay for equal work, regardless of sex; specifically, a 1963 amendment to the Fair Labor Standards Act designed to require equal pay for women doing the same work as men.
- ethics** The principles of conduct governing an individual or a group; specifically, the standards you use to decide what your conduct should be; the study of standards of conduct and moral judgment; also the standards of right conduct.
- ethnocentric** Here the company staffs its positions abroad with employees from its headquarters—with parent-country nationals, in other words.
- ethnocentrism** The tendency to view members of other social groups less favorably than members of one's own group.
- executive coach** An outside consultant who questions the executive's associates in order to identify the executive's strengths and weaknesses, and then counsels the executive so he or she can capitalize on those strengths and overcome the weaknesses.
- exit interviews** Interviews with employees who are leaving the firm, conducted for obtaining information about the job or related matters, to give the employer insight about the company.
- expatriates (expats)** Noncitizens of the countries in which employees are working.
- expectancy chart** A graph showing the relationship between test scores and job performance for a group of people.
- expectancy** A person's expectation that his or her effort will lead to performance.
- fact finder** A neutral party who studies the issues in a dispute and makes a public recommendation for a reasonable settlement.
- fair day's work** Output standards devised based on careful, scientific analysis.
- Fair Labor Standards Act (1938)** This 1938 act provides for minimum wages, maximum hours, overtime pay, and child labor protection. The law, amended many times, covers most employees.
- fair treatment** Reflects concrete actions, such as "employees are treated with respect," and "employees are treated fairly."
- family-friendly (or work-life) benefits** Benefits such as child care that make it easier for employees to balance their work and family responsibilities.
- Federal Violence Against Women Act of 1994** The act that provides that a person who commits a crime of violence motivated by gender shall be liable to the party injured.
- financial incentives** Financial rewards paid to workers whose production exceeds some predetermined standard.
- flextime** A work schedule in which employees' workdays are built around a core of midday hours, and employees determine, within limits, what other hours they will work.
- forced distribution method** Similar to grading on a curve; predetermined percentages of ratees are placed in various performance categories.
- foreign service premiums** Financial payments over and above regular base pay, typically ranging between 10% and 30% of base pay.
- functional strategy** A strategy that identifies the broad activities that each department will pursue in order to help the business accomplish its competitive goals.
- gainsharing plan** An incentive plan that engages employees in a common effort to achieve productivity objectives and share the gains.
- gender-role stereotypes** The tendency to associate women with certain (frequently nonmanagerial) jobs. On the other hand, diversity can be an engine of performance, as the following feature shows.
- global** The global company aims to attract the best candidates globally, including freely using third-country nationals to staff its positions around the world with the best people available.
- golden parachute** A payment companies make in connection with a change in ownership or control of a company.
- good faith bargaining** Both parties are making every reasonable effort to arrive at agreement; proposals are being matched with counterproposals.
- good-faith effort strategy** An affirmative action strategy that emphasizes identifying and eliminating the obstacles to hiring and promoting women and minorities, and increasing the minority or female applicant flow.
- grade definition** Written descriptions of the level of, say, responsibility and knowledge required by jobs in each grade. Similar jobs can then be combined into grades or classes.
- grades** A job classification system like the class system, although grades often contain dissimilar jobs, such as secretaries, mechanics, and firefighters. Grade descriptions are written based on compensable factors listed in classification systems.

graphic rating scale A scale that lists a number of traits and a range of performance for each. The employee is then rated by identifying the score that best describes his or her level of performance for each trait.

graphology The use of handwriting analysis to determine the writer's personality characteristics and moods, and even illnesses, such as depression.

grievance procedure Formal process for addressing any factor involving wages, hours, or conditions of employment that is used as a complaint against the employer.

group life insurance Provides lower rates for the employer or employee and includes all employees, including new employees, regardless of health or physical condition.

halo effect In performance appraisal, the problem that occurs when a supervisor's rating of a subordinate on one trait biases the rating of that person on other traits.

hardship allowances Payments that compensate expatriates for exceptionally hard living and working conditions at certain locations.

health maintenance organization (HMO) A prepaid health-care system that generally provides routine round-the-clock medical services as well as preventive medicine in a clinic-type arrangement for employees, who pay a nominal fee in addition to the fixed annual fee the employer pays.

high-performance work system (HPWS) A set of human resource management policies and practices that promote organizational effectiveness.

HR audit An HR audit is an analysis of the completeness, efficiency, and effectiveness of the organization's HR functions, including its HR policies, practices, processes, and relevant metrics.

HR scorecard A process for assigning financial and nonfinancial goals or metrics to the human resource management-related chain of activities required for achieving the company's strategic aims and for monitoring results.

human resource management (HRM) The process of acquiring, training, appraising, and compensating employees, and of attending to their labor relations, health and safety, and fairness concerns.

human resource metrics The quantitative gauge of a human resource management activity, such as employee turnover, hours of training per employee, or qualified applicants per position.

illegal bargaining items Items in collective bargaining that are forbidden by law; for example, a clause agreeing to hire "union members exclusively" would be illegal in a right-to-work state.

impasse Collective bargaining situation that occurs when the parties are not able to move further toward settlement, usually because one party is demanding more than the other will offer.

in-house development center A company-based method for exposing prospective managers to realistic exercises to develop improved management skills.

indirect financial payments Pay in the form of financial benefits such as insurance.

injunction A court order compelling a party or parties either to resume or to desist from a certain action.

inside games Union efforts to convince employees to impede or to disrupt production—for example, by slowing the work pace.

instrumentality The perceived relationship between successful performance and obtaining the reward.

insubordination Willful disregard or disobedience of the boss's authority or legitimate orders; criticizing the boss in public.

interest arbitration Arbitration enacted when labor agreements do not yet exist or when one or both parties are seeking to change the agreement.

interest inventory A personal development and selection device that compares the person's current interests with those of others now in various occupations so as to determine the preferred occupation for the individual.

international human resource management (IHRM) The human resource management concepts and techniques employers use to manage the human resource aspects of their international operations, including acquiring, training, appraising, and compensating employees, and attending to their labor relations, health and safety, and fairness concerns.

intrinsic motivation Motivation that derives from the pleasure someone gets from doing the job or task.

job aid A set of instructions, diagrams, or similar methods available at the job site to guide the worker.

job analysis The procedure for determining the duties and skill requirements of a job and the kind of person who should be hired for it.

job classification (or job grading) A method for categorizing jobs into groups.

job descriptions A list of a job's duties, responsibilities, reporting relationships, working conditions, and supervisory responsibilities—one product of a job analysis.

job enlargement Assigning workers additional same-level activities.

job enrichment Redesigning jobs in a way that increases the opportunities for the worker to experience feelings of responsibility, achievement, growth, and recognition.

job evaluation A systematic comparison done in order to determine the worth of one job relative to another.

- job hazard analysis** A systematic approach to identifying and eliminating workplace hazards before they occur.
- job instruction training (JIT)** Listing each job's basic tasks, along with key points, in order to provide step-by-step training for employees.
- job posting** Publicizing an open job to employees (often by literally posting it on bulletin boards) and listing its attributes, like qualifications, supervisor, working schedule, and pay rate.
- job-related interview** A series of job-related questions that focus on relevant past job-related behaviors.
- job-requirements matrix** A more complete description of what the worker does and how and why he or she does it; it clarifies each task's purpose and each duty's required knowledge, skills, abilities, and other characteristics.
- job rotation** A management training technique that involves moving a trainee from department to department to broaden his or her experience and identify strong and weak points; systematically moving workers from one job to another.
- job sharing** Allows two or more people to share a single full-time job.
- job specifications** A list of a job's "human requirements," that is, the requisite education, skills, personality, and so on—another product of a job analysis.
- Landrum-Griffin Act of 1959** Also known as the *Labor Management Reporting and Disclosure Act*, this law aimed at protecting union members from possible wrongdoing on the part of their unions.
- layoff** An employer sending employees home due to a lack of work; this is typically a temporary situation.
- lifelong learning** Provides employees with continuing learning experiences over their tenure with the firm, with the aims of ensuring they have the opportunity to learn the skills they need to do their jobs and to expand their occupational horizons.
- line authority** Traditionally gives managers the right to issue orders to other managers or employees.
- line manager** A manager who is authorized to direct the work of subordinates and is responsible for accomplishing the organization's tasks.
- locals** Citizens of the countries in which employees are working; also called *host-country nationals*.
- lockout** A refusal by the employer to provide opportunities to work.
- machine learning** Software that can improve its own performance and learn on its own.
- management assessment center** A simulation in which management candidates are asked to perform realistic tasks in hypothetical situations and are scored on their performance. It usually also involves testing and the use of management games.
- management development** Any attempt to improve current or future management performance by imparting knowledge, changing attitudes, or increasing skills.
- management game** A development technique in which teams of managers compete by making computerized decisions regarding realistic but simulated situations.
- management process** The five basic functions of planning, organizing, staffing, leading, and controlling.
- manager** Someone who is responsible for accomplishing the organization's goals, and who does so by managing the efforts of the organization's people.
- managing** To perform five basic functions: planning, organizing, staffing, leading, and controlling.
- managing diversity** Maximizing diversity's potential benefits while minimizing its potential barriers.
- mandatory bargaining items** Items in collective bargaining that a party must bargain over if they are introduced by the other party—for example, pay.
- market-competitive pay plan** Pay plan where pay rates are equitable both internally (based on each job's relative value) and externally (in other words when compared with what other employers are paying).
- market-competitive pay system** A pay system in which the employer's actual pay rates are competitive with those in the relevant labor market.
- mass interview** A panel interviews several candidates simultaneously.
- mediation** Intervention in which a neutral third party tries to assist the principals in reaching agreement.
- mentoring** Advising, counseling, and guiding.
- merit pay (merit raise)** Any salary increase awarded to an employee based on his or her individual performance.
- miniature job training and evaluation** Training candidates to perform several of the job's tasks, and then evaluating the candidates' performance prior to hire.
- mission statement** Summarizes the answer to the question, "What business are we in?"
- "mixed-motive" case** A discrimination allegation case in which the employer argues that the employment action taken was motivated not by discrimination, but by some nondiscriminatory reason such as ineffective performance.
- mobility premiums** Typically, lump-sum payments to reward employees for moving from one assignment to another.
- national emergency strikes** Strikes that might "imperil the national health and safety."
- National Labor Relations (or Wagner) Act** This law banned certain types of unfair practices and provided for secret-ballot elections and majority rule for determining whether a firm's employees want to unionize.
- National Labor Relations Board (NLRB)** The agency created by the Wagner Act to investigate unfair labor

practice charges and to provide for secret-ballot elections and majority rule in determining whether a firm's employees want a union.

negligent hiring Hiring workers with questionable backgrounds without proper safeguards.

negligent training A situation where an employer fails to train adequately, and the employee subsequently harms a third party.

Norris-LaGuardia Act of 1932 This law marked the beginning of the era of strong encouragement of unions and guaranteed to each employee the right to bargain collectively "free from interference, restraint, or coercion."

occupational illness Any abnormal condition or disorder caused by exposure to environmental factors associated with employment.

Occupational Safety and Health Act of 1970 The law passed by Congress in 1970 "to assure so far as possible every working man and woman in the nation safe and healthful working conditions and to preserve our human resources."

Occupational Safety and Health Administration (OSHA) The agency created within the Department of Labor to set safety and health standards for almost all workers in the United States.

Office of Federal Contract Compliance Programs (OFCCP) This office is responsible for implementing the executive orders and ensuring compliance of federal contractors.

on-demand recruiting services (ODRS) Services that provide short-term specialized recruiting to support specific projects without the expense of retaining traditional search firms.

on-the-job training (OJT) Training a person to learn a job while working on it.

operational safety reviews Reviews conducted by agencies to ascertain whether units under their jurisdiction are complying with all the applicable safety laws, regulations, orders, and rules.

organization A group consisting of people with formally assigned roles who work together to achieve the organization's goals.

organization chart A chart that shows the organization-wide distribution of work, with titles of each position and interconnecting lines that show who reports to and communicates with whom.

organization-wide incentive plan Incentive plan in which all or most employees can participate.

organizational climate The perceptions a company's employees share about the firm's psychological environment, for instance, in terms of things like concern for employees' well-being, supervisory behavior, flexibility, appreciation, ethics, empowerment, political behaviors, and rewards.

organizational culture The characteristic values, traditions, and behaviors a company's employees share.

organizational development A special approach to organizational change in which employees themselves formulate and implement the change that's required.

outplacement counseling A formal process by which a terminated person is trained and counseled in the techniques of self-appraisal and securing a new position.

paired comparison method Ranking employees by making a chart of all possible pairs of the employees for each trait and indicating which is the better employee of the pair.

panel interview An interview in which a group of interviewers questions the applicant.

parent or home-country nationals Citizens of the country in which the multinational company has its headquarters.

pay (or rate) ranges A series of steps or levels within a pay grade, usually based upon years of service.

pay (or wage) grade A pay grade is composed of jobs of approximately equal difficulty.

pay-for-performance Any plan that ties pay to some measure of performance, such as productivity or profitability.

Pension Benefits Guarantee Corporation (PBGC) Established under ERISA to ensure that pensions meet vesting obligations; also insures pensions should a plan terminate without sufficient funds to meet its vested obligations.

pension plans Plans that provide a fixed sum when employees reach a predetermined retirement age or when they can no longer work due to disability.

performance analysis Verifying that there is a performance deficiency and determining whether that deficiency should be corrected through training or through some other means (such as transferring the employee).

performance appraisal Evaluating an employee's current and/or past performance relative to his or her performance standards.

performance appraisal process A three-step appraisal process involving (1) setting work standards, (2) assessing the employee's actual performance relative to those standards, and (3) providing feedback to the employee with the aim of helping him or her to eliminate performance deficiencies or to continue to perform above par.

performance management The *continuous* process of identifying, measuring, and developing the performance of individuals and teams and *aligning* their performance with the organization's goals.

personnel replacement charts Company records showing present performance and promotability of inside candidates for the most important positions.

- picketing** Having employees carry signs announcing their concerns near the employer's place of business.
- piecework** A system of pay based on the number of items processed by each individual worker in a unit of time, such as items per hour or items per day.
- point method** The job evaluation method in which a number of compensable factors are identified and then the degree to which each of these factors is present on the job is determined.
- polycentric** Here the company staffs positions abroad with local or host-country employees.
- polygraph** A device that measures physiological changes like increased perspiration, on the assumption that such changes reflect lying.
- portability** Instituting policies that enable employees to easily take their accumulated pension funds when they leave an employer.
- portfolio careers** Careers based on using one's skills to create a livelihood from multiple income sources, often from a several jobs paying different rates.
- position analysis questionnaire (PAQ)** A questionnaire used to collect quantifiable data concerning the duties and responsibilities of various jobs.
- position replacement card** A card prepared for each position in a company to show possible replacement candidates and their qualifications.
- preferential shop** Union members get preference in hiring, but the employer can still hire nonunion members.
- Pregnancy Discrimination Act** An amendment to Title VII of the Civil Rights Act that prohibits sex discrimination based on "pregnancy, childbirth, or related medical conditions."
- problem-solving teams** Teams that identify and research work processes and develop solutions to work-related problems.
- procedural justice** Refers to just procedures in the allocation of rewards or discipline, in terms of the actual procedures being evenhanded and fair.
- process chart** A workflow chart that shows the flow of inputs to and outputs from a particular job.
- productivity** The ratio of outputs (goods and services) divided by the inputs (resources such as labor and capital).
- profit-sharing plan** A plan whereby employees share in the company's profits.
- programmed learning** A systematic method for teaching job skills, involving presenting questions or facts, allowing the person to respond, and giving the learner immediate feedback on the accuracy of his or her answers.
- promotion** Advancement to a position of increased responsibility.
- protected class** Persons such as minorities and women protected by equal opportunity laws, including Title VII.
- qualified individuals** Under ADA, those who can carry out the essential functions of the job.
- quality circle** A special type of formal problem-solving team, usually composed of 6 to 12 specially trained employees who meet once a week to solve problems affecting their work area.
- ranking method** The simplest method of job evaluation that involves ranking each job relative to all other jobs, usually based on overall difficulty.
- ratio analysis** A forecasting technique for determining future staff needs by using ratios between, for example, sales volume and number of employees needed.
- reality shock** Results of a period that may occur at the initial career entry when the new employee's high job expectations confront the reality of a boring or otherwise unattractive work situation.
- recruiting yield pyramid** The historical arithmetic relationships between recruitment leads and invitees, invitees and interviews, interviews and offers made, and offers made and offers accepted.
- reliability** The consistency of scores obtained by the same person when retested with the identical tests or with alternate forms of the same test.
- restricted policy** Another test for adverse impact, involving demonstration that an employer's hiring practices exclude a protected group, whether intentionally or not.
- reverse discrimination** Claim that due to affirmative action quota systems, white males are discriminated against.
- right to work** A term used to describe state statutory or constitutional provisions banning the requirement of union membership as a condition of employment.
- rights arbitration** Arbitration that interprets existing contract terms, for instance, when an employee questions the employer's right to take some disciplinary action.
- role-playing** A training technique in which trainees act out parts in a realistic management situation.
- safety awareness program** Program that enables trained supervisors to orient new workers arriving at a job site regarding common safety hazards and simple prevention methods.
- salary survey** A survey aimed at determining prevailing wage rates. A good salary survey provides specific wage rates for specific jobs. Formal written questionnaire surveys are the most comprehensive, but telephone surveys and newspaper ads are also sources of information.
- savings and thrift plan** Plan in which employees contribute a portion of their earnings to a fund; the employer usually matches this contribution in whole or in part.

Scanlon plan An incentive plan developed in 1937 by Joseph Scanlon and designed to encourage cooperation, involvement, and sharing of benefits.

scatter plot A graphical method used to help identify the relationship between two variables.

scientific management movement Management approach based on improving work methods through observation and analysis.

self-managing/self-directed work team A small (usually 8 to 10 members) group of carefully selected, trained, and empowered employees who basically run themselves with little or no outside supervision, usually for the purpose of accomplishing a specific task or mission.

severance pay A one-time payment some employers provide when terminating an employee.

sexual harassment Harassment on the basis of sex that has the purpose or effect of substantially interfering with a person's work performance or creating an intimidating, hostile, or offensive work environment.

sick leave Provides pay to an employee when he or she is out of work because of illness.

situational interview A series of job-related questions that focus on how the candidate would behave in a given situation.

situational test A test that requires examinees to respond to situations representative of the job.

social responsibility Refers to the extent to which companies should and do channel resources toward improving one or more segments of society other than the firm's owners or stockholders.

Social Security Federal program that provides three types of benefits: retirement income at the age of 62 and thereafter, survivor's or death benefits payable to the employee's dependents regardless of age at time of death, and disability benefits payable to disabled employees and their dependents. These benefits are payable only if the employee is insured under the Social Security Act.

staff authority Gives a manager the right to advise other managers or employees.

staff manager A manager who assists and advises line managers.

standard hour plan A plan by which a worker is paid a basic hourly rate but is paid an extra percentage of his or her rate for production exceeding the standard per hour or per day. Similar to piecework payment but based on a percent premium.

Standard Occupational Classification (SOC) Classifies all workers into one of 23 major groups of jobs that are subdivided into minor groups of jobs and detailed occupations.

stereotyping Ascribing specific behavioral traits to individuals based on their apparent membership in a group.

stock option The right to purchase a stated number of shares of a company stock at today's price at some time in the future.

straight piecework An incentive plan in which a person is paid a sum for each item he or she makes or sells, with a strict proportionality between results and rewards.

strategic human resource management Formulating and executing human resource policies and practices that produce the employee competencies and behaviors the company needs to achieve its strategic aims.

strategic management The process of identifying and executing the organization's strategic plan by matching the company's capabilities with the demands of its environment.

strategic plan The company's plan for how it will match its internal strengths and weaknesses with external opportunities and threats in order to maintain a competitive advantage.

strategy A course of action the company can pursue to achieve its strategic aims.

strategy-based metrics Metrics that specifically focus on measuring the activities that contribute to achieving a company's strategic aims.

strategy map A strategic planning tool that shows the "big picture" of how each department's performance contributes to achieving the company's overall strategic goals.

stress interview An interview in which the applicant is made uncomfortable by a series of often rude questions. This technique helps identify hypersensitive applicants and those with low or high stress tolerance.

strictness/leniency The problem that occurs when a supervisor has a tendency to rate all subordinates either high or low.

strike A withdrawal of labor.

structured (or directive) interview An interview following a set sequence of questions.

structured sequential interview An interview in which the applicant is interviewed sequentially by several persons; each rates the applicant on a standard form.

structured situational interview A series of job-relevant questions with predetermined answers that interviewers ask of all applicants for the job.

succession planning The ongoing process of systematically identifying, assessing, and developing organizational leadership to enhance performance.

suggestion teams Temporary teams whose members work on specific analytical assignments, such as how to cut costs or raise productivity.

supplemental pay benefits Benefits for time not worked such as unemployment insurance, vacation and holiday pay, and sick pay.

supplemental unemployment benefits Provide for a "guaranteed annual income" in certain industries

- where employers must shut down to change machinery or due to reduced work. These benefits are paid by the company and supplement unemployment benefits.
- sympathy strike** A strike that takes place when one union strikes in support of the strike of another.
- Taft–Hartley Act of 1947** Also known as the *Labor Management Relations Act*, this law prohibited unfair union labor practices and enumerated the rights of employees as union members. It also enumerated the rights of employers.
- talent management** The goal-oriented and integrated process of planning, recruiting, developing, managing, and compensating employees.
- task analysis** A detailed study of a job to identify the specific skills required.
- task statement** Written item that shows *what* the worker does on one particular job task; *how* the worker does it; *the knowledge, skills, and aptitudes required* to do it; and *the purpose of the task*.
- team (or group) incentive plan** A plan in which a production standard is set for a specific work group, and its members are paid incentives if the group exceeds the production standard.
- terminate at will** In the absence of a contract, either the employer or the employee can terminate at will the employment relationship.
- termination interview** The interview in which an employee is informed of the fact that he or she has been dismissed.
- test validity** The accuracy with which a test, interview, and so on, measures what it purports to measure or fulfills the function it was designed to fill.
- the cloud** Refers to placing software programs and services on vendors' remote servers, from which they can then deliver these programs and services seamlessly to employees' digital devices.
- third-country nationals** Citizens of a country other than the parent or the host country.
- Title VII of the 1964 Civil Rights Act** The section of the act that says an employer cannot discriminate on the basis of race, color, religion, sex, or national origin with respect to employment; specifically, it makes it unlawful for employers to discriminate against any individual with respect to hiring, compensation, terms, conditions, or privileges of employment because of race, color, religion, sex, or national origin.
- tokenism** When a company appoints a small group of women or minorities to high-profile positions, rather than more aggressively seeking full representation for that group.
- training** The process of teaching new or current employees the basic skills they need to perform their jobs.
- transfers** Reassignments to similar positions in other parts of the firm.
- trend analysis** Study of a firm's past employment needs over a period of years to predict future needs.
- unclear standards** An appraisal that is too open to interpretation.
- unemployment insurance (or compensation)** Provides benefits if a person is unable to work through some fault other than his or her own.
- unfair labor practice strike** A strike aimed at protesting illegal conduct by the employer.
- Uniform Guidelines** Guidelines issued by federal agencies charged with ensuring compliance with equal employment federal legislation explaining recommended employer procedures in detail.
- union salting** A union organizing tactic by which workers who are in fact employed full-time by a union as undercover organizers are hired by unwitting employers.
- union shop** A form of union security in which the company can hire nonunion people, but they must join the union after a prescribed period of time and pay dues. (If they do not, they can be fired.)
- unsafe conditions** The mechanical and physical conditions that cause accidents.
- unstructured (or nondirective) interview** An unstructured conversational-style interview in which the interviewer pursues points of interest as they come up in response to questions.
- unstructured sequential interview** An interview in which each interviewer forms an independent opinion after asking different questions.
- valence** The perceived value a person attaches to the reward.
- variable pay** Any plan that ties pay to productivity or profitability, usually as one-time lump payments.
- video-based simulation** A situational test in which examinees respond to video simulations of realistic job situations.
- virtual classroom** Teaching method that uses special collaboration software to enable multiple remote learners, using their PCs or laptops, to participate in live audio and visual discussions, communicate via written text, and learn via content such as PowerPoint slides.
- virtual teams** Groups of geographically dispersed and generally same-level coworkers who meet and interact using information technologies to accomplish an organizational task.
- vision statement** A general statement of the firm's intended direction; it shows, in broad terms, "what we want to become."
- Vocational Rehabilitation Act of 1973** The act requiring certain federal contractors to take affirmative action for disabled persons.
- voluntary (or permissible) bargaining items** Items in collective bargaining over which bargaining is neither

illegal nor mandatory—neither party can be compelled against its wishes to negotiate over those items.

wage curve Shows the relationship between the value of the job and the average wage paid for this job.

Walsh-Healey Public Contract Act (1936) A 1936 law that requires minimum wage and working conditions for employees working on any government contract amounting to more than \$10,000.

Web 2.0 learning Training that uses online technologies such as social networks, virtual worlds (such as Second Life), and systems that blend synchronous and asynchronous delivery with blogs, chat rooms, bookmark sharing, and tools such as 3-D simulations.

wildcat strike An unauthorized strike occurring during the term of a contract.

work samples Actual job tasks used in testing applicants' performance.

work sampling technique A testing method based on measuring performance on actual basic job tasks.

work sharing Refers to a temporary reduction in work hours by a group of employees during economic downturns as a way to prevent layoffs.

workers' compensation Provides income and medical benefits to work-related accident victims or their dependents regardless of fault.

workflow analysis A detailed study of the flow of work from job to job in a work process.

workforce (or employment or personnel) planning The process of deciding what positions the firm will have to fill, and how to fill them

works councils Formal, employee-elected groups of worker representatives.

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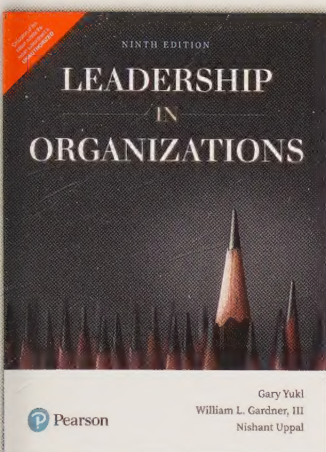
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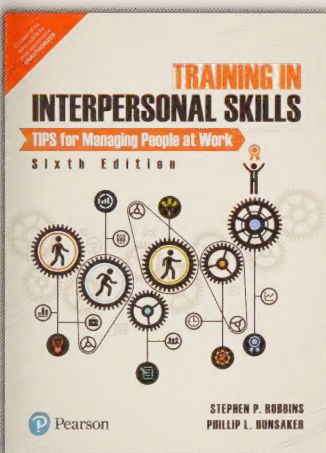
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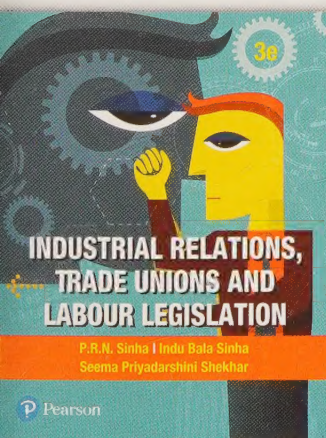
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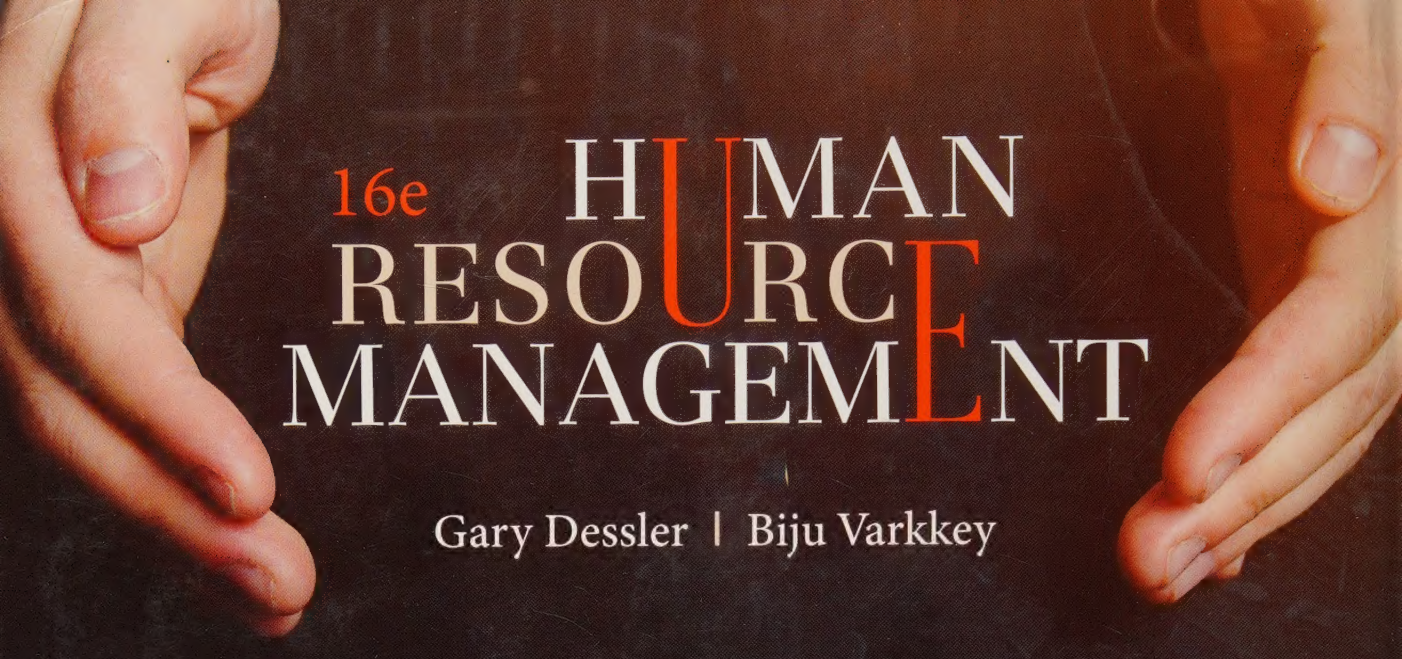
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